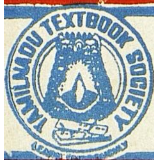
ACCOUNTANCY

HIGHER SECONDARY

FIRST YEAR

Vol. I



TAMILNADU TEXTBOOK SOCIETY

ACCOUNTANCY

(ELEMENTS OF BOOK-KEEPING)

Vol. I

HIGHER SECONDARY — FIRST YEAR

Untouchability is a sin
Untouchability is a crime
Untouchability is inhuman



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TEXTBOOK SOCIETY
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CHAPTER I

INTRODUCTION

The rapid expansion of business all over the world is a clear consequence of the population increase, growth of technology and multiplication of wants. Expansion of business involves industrialisation as well as development of distribution activities.

Along with the tremendous expansion of business, there has occurred a vast improvement in management of business units. The basis of all this management is Accounting which is concerned with the ascertaining and analysing of business results.

Let us take the example of a Trader. He invests his resources in buying certain goods. He transports those goods to his business place ; he advertises his goods ; he pays salary to the salesman ; he pays rent for his shop building ; he sells his goods and makes a profit or loss as the case may be. These are known as his **Business Transactions.**

Let us find out his profit now :

He buys goods for ..	Rs.	5,000
He spends on carrying the goods to his business place ..	Rs.	500
He spends on advertisement ..	Rs.	200
He pays to his salesman ..	Rs.	300
He pays rent for his shop ..	Rs.	400
He sells all his goods for ..	Rs.	8,000

Let us arrange these figures in some order :

Cost of goods	Rs.	5,000	Sales Rs. 8,000	
Carriage expenses	Rs.	500		
Advertisement expenses ..	Rs.	200		
Salesman Salary	Rs.	300		
Rent	Rs.	400		
	Rs.	6,400	Rs.	8,000

Totally he spends Rs. 6,400 and gets back Rs. 8,000. Therefore he has made a profit of Rs. 1,600. You know that if he is to find out his profit, he must keep a record of all his transactions. Otherwise it would be difficult for him to say whether he has gained or lost in the business. Of course if the transactions are very few, they may be remembered. But when he does his business continuously, he cannot rely upon his memory. Therefore business transactions should be properly recorded in the appropriate notebooks. Such notebooks are known as **Books of Accounts or Accounting Records.**

Book-Keeping

Book-Keeping is that branch of knowledge which tells us how to keep a record of business transactions. It is considered as an art of recording systematically the various types of transactions that occur in a business concern in the Books of Accounts. It has been defined by so many authors in so many ways but with such similarity that all of them convey the above mentioned idea. Just as a matter of interest, let us see some of these definitions.

'Book-Keeping is the science and art of correctly recording in Books of Account all those business transactions that result in the transfer of money or money's worth.' —R. N. CARTER.

'Book-Keeping is the art of recording business transactions in a systematic manner.' —A. H. ROSENKAMPFF

'Book-Keeping is the art of recording all money transactions, so that the financial position of an undertaking and its relationship to both its proprietors and to outside persons can be readily ascertained'. —SPICER & PEGLER.

Therefore **Accountancy** is a term which refers to a systematic study of the principles and methods of keeping accounts. Accountancy and Book-Keeping are related terms ; the former relates to the theoretical study and the latter refers to the practical work.

Objects of Book-Keeping

We have already seen that the main object of recording the transactions systematically is to calculate accurately the profit

or loss of a business. But on a closer scrutiny one can find that many other *advantages* accrue to businessmen when they maintain accurate accounting records. They are listed below :

Advantages of Book-Keeping

(1) *Reliable Record* :—Transactions cannot be stored up in memory even in the case of a small shop. Therefore, a reliable record of transactions in a classified form is necessary for ready reference at any time.

(2) *Calculation of Profit or Loss* :—The Business is undertaken for earning profit. Therefore, the proprietor must be careful to find out the profit or loss in his business at any time, certainly at the end of the year.

(3) *Calculation of Dues* :—Transactions take place at a certain time. But payment may be made some time later. Therefore, the businessman has to know how much others have to pay him and how much he has to pay others.

(4) *Control over Borrowings* :—Many businessmen borrow from banks and other sources. These loans are repayable. Hence they are called **Liabilities.** Just as he must have a control over assets, he should have a control over liabilities. If not, he will drown himself in debts.

(5) *Control over Assets*:—In the course of business the proprietor acquires various **Assets** like Building, Machines, Furniture etc. He has to keep a check over them and find out their values year after year.

(6) *Ascertainment of the Growth of Business*:—When a proprietor prepares a Financial Statement, say on 31st Dec. 1970, 31st Dec. 1971, 31st Dec. 1972, 31st Dec. 1973 and so on he will be in a position to make a year to year comparison. This will enable him to ascertain the growth or otherwise of his business. Thus, Book-Keeping enables a long range planning of the business activities besides satisfying the short term objective of calculation of annual profits or losses.

(7) *Ascertainment of the Financial Position* :—It is not enough to know the profit or loss ; the Proprietor should have a full picture of his position—the Capital invested in the business, Loans taken

for the development of the business, Dues payable to others, the Value of Assets, the amount of Cash available on hand and in the Bank etc. This full picture is the result of his trading for a period, (say, a year). Once this full picture is known, the Proprietor will be able to plan for the next year's business.

(8) *Identifying the ' Do's and Dont's* :—Book-Keeping enables the proprietor to make an intelligent and periodic (Monthly, Quarterly or Annual) analysis of various aspects of the Business such as Purchases, Sales, Expenditure on various headings and Income from various sources. From such analysis, it will be possible to focus his attention on what should be done and what should not be done to enhance his profit earning capacity.

(9) *Fixing the Selling Price* :—In fixing the Selling Price, the businessmen have to consider the Cost of Production or the Cost of Purchases. Accounting information is essential for determining Selling Prices.

(10) *Taxation* :—Businessmen pay Sales Tax, Income Tax etc. The Tax Authorities require them to submit their accounts. For this purpose, they have to maintain a record of all their business transactions

HISTORICAL BACKGROUND OF BOOK-KEEPING

Recording of business transactions has been in vogue in many countries, even in the remote past. In India too accounts were written up in the past though not in such a developed form as we have now. There are historical references to this fact For example, Kautilya's famous '**ARTHASASTRA**' written in the 4th century B.C. explains the art of writing accounts However the modern accounting system known as **Double Entry System** is a gift of Italy to the business world. It originated there in the fifteenth century. In 1495 an Italian monk, by name Lucas Pacioli published a book on Mathematics. In that book, he has devoted a section for Book-Keeping. Though the system thus originated in Italy, it was perfected in England and other European countries

during the 18th century only i.e., after the Industrial Revolution. Today the Accounting System known as ' Double Entry System ' is popular all over the world.

QUESTIONS

1. Define Book-Keeping. What are the objects of Book-Keeping ?
2. ' The object of Book-Keeping is only to find out profit or loss '—Comment.

CHAPTER II

TERMS USED IN ACCOUNTANCY

Transaction

Transactions are those activities of businessmen which involve transfer of money or goods or services between two persons or two accounts. These activities may be in the nature of purchase of goods, sale of goods, borrowing from a bank, lending of money to another trader, payment of certain business expenses such as salary or rent and receipt of certain income like commission or dividend.

Transactions are of two types—CASH transaction and CREDIT transaction. When Rama buys goods from NARAYANAN & SONS paying the price of the goods immediately, it is a **cash transaction**. If Rama does not pay immediately, but promises to pay later, it is known as a **credit transaction**. In the latter case Rama is indebted to NARAYANAN & SONS. Rama remains a debtor to NARAYANAN & SONS until he pays his dues.

Debtor

A person who receives a benefit without giving money or money's worth is a Debtor. Dr. is the abbreviation of debtor.

Creditor

A person who gives a benefit without receiving money or money's worth is a Creditor. Cr. is the abbreviation of Creditor.

Account

It is a statement of the various dealings which occur between a customer and the firm. It can also be expressed as a clear and concise record of the transactions relating to a person, or a firm, or a property (or Asset) or a liability or an expense or an income.

Goods

This is a common term used by business-men. It indicates the articles purchased for the purpose of re-sale. For a Furniture Mart

selling chairs and tables, Furniture is considered as Goods. Other articles which the Furniture Mart keeps in the shop for its own use (and not for resale) such as a type-writer, a wall clock and a cycle for the office use are not Goods ; they are known as ' Assets ' of the business house.

Purchases

These are the goods bought by the trader in order to sell them to his customers.

Purchases Returns

Out of the Purchases made by a shop-keeper, a portion (or the whole lot) may be of poor quality. He has to return those defective goods to the suppliers. They are known as ' Purchases Returns ' or ' Returns Outwards ' or ' Returns to Suppliers '.

Sales

These are goods sold out. They are known as ' Business Turnover '. When goods are sold for cash, businessmen call them ' Till Takings ', meaning thereby ' Cash Sales '.

Sales Returns

When the Trader receives back the goods which he has already sold, he calls them as ' Sales Returns ' or ' Returns Inwards ' or ' Returns from Customers '. The buyers are not satisfied and therefore they return the goods.

Invoice

While making a Sale, the seller prepares a Statement giving the particulars such as the quantity, price per unit, the total amount payable, any deductions made and shows the net amount payable by the buyer. Such a statement is called an Invoice.

Voucher

It is a written document in support of a transaction. It is a proof that a particular transaction has taken place for the value stated in the Voucher. Voucher is necessary to audit the accounts.

QUESTIONS

(1) What is a transaction ?

(2) Who is a Debtor and who is a Creditor ?

(3) How would you differentiate between Goods and Assets ?

(4) What do you understand by 'Purchase Returns' and 'Sales Returns' ?

(5) Explain the terms :

(*a*) Invoice.

(*b*) Voucher.

CHAPTER III

PRINCIPLES OF DOUBLE ENTRY SYSTEM

Let us now learn how to record a transaction. We have already seen that there are numerous transactions in a business concern. Each transaction, when closely analysed, reveals two aspects. One aspect will be either the ' Receiving Aspect ' or ' Incoming Aspect'. This is termed as Debit Aspect. Another Aspect will be ' Giving Aspect ' or ' Outgoing Aspect ' or ' Income Aspect'. This is termed as ' Credit Aspect '. These two aspects namely ' Debit Aspect ' and ' Credit Aspect ' form the basis of the Double Entry.

Rules of Double Entry

Rules of Double Entry Book-Keeping are framed on the basis of these two aspects in each of the business transactions. These rules are as follows :—

1. (*a*) Debit the RECEIVER	1. (*b*) Credit the GIVER
2. (*a*) Debit what COMES IN	2. (*b*) Credit what GOES OUT
3. (*a*) Debit all EXPENSES and LOSSES	3. (*b*) Credit all INCOMES and GAINS

A businessman may enter into thousands of transactions. Nevertheless if he applies these three rules, he can record all these transactions in his Account Books under the ' Double Entry System'. His job is only to identify the Debit and the Credit aspects in each transaction.

How to Identify

Business transactions can be divided into THREE categories :

(1) Transactions relating to Individuals and Firms.

(2) Transactions relating to some properties or Goods or Cash.

(3) Transactions relating to certain Expenses (or Losses) and certain Gains (or Income).

For the first group of transactions, apply Rule No. 1. For the second group of transactions, apply Rule No. 2 and for the third group of transactions, apply Rule No. 3.

Accounts

As the transactions fall into three categories, Accounts are also of three types :

(1) *Personal Accounts :* These are accounts of :

(*a*) Individuals	......	*E.g.*, Mohan, Murali.
(*b*) Firms	......	*E.g.*, M/s Mohan & Co., M/s Rajan & Sons ; M/s Nalli Silk Stores etc.
(*c*) Companies	......	*E.g.*, E.I.D. Parry & Co. Ltd., Binny & Co. Ltd.
(*d*) Banks	......	*E.g.*, Indian Overseas Bank.
(*e*) Co-operative Concerns	......	*E.g.*, The Triplicane Urban Co-operative Society Ltd.

With the above five parties the business concern may keep business relations because of buying goods from them or selling goods to them or borrowing from them or lending to them. They become either ' Debtors ' or ' Creditors.'

The Proprietor being an individual, his Capital A/c and his Drawings A/c are also known as ' Personal Accounts '.

(2) *Real Accounts* (*or Property Accounts*) :—A business concern has certain possessions. It possesses goods in which it trades. It also possesses certain properties with the help of which it trades. All of them are ' Real Accounts'. These properties either come into the business or go out of the business. When they come in, they are debited ; and when they go out, they are credited.

(3) *Nominal Accounts* (*or Fictitious Accounts*) :—While a business is carried on, many types of expenses are met. For *e.g.*, Salary for the staff, Rent for the shop building, Advertisement, Electricity Charges, Telephone Charges etc. Similarly various types of incomes are received. For *e.g.*, Commission, Interest, Dividend

etc. For each of these items an Account is maintained. These are called 'Nominal Accounts'. When the expense is incurred, it is debited and when the income is earned, it is credited.

The rules for making entries under Double Entry System can be summarised as follows :

(1) Personal Accounts : Debit the RECEIVER ; Credit the GIVER.

(2) Real Accounts : Debit what COMES IN ; Credit what GOES OUT.

(3) Nominal Accounts : Debit all EXPENSES and LOSSES ; Credit all INCOMES and GAINS.

Advantages of Double Entry System

(1) It enables the trader to keep a complete systematic and accurate record of all business transactions.

(2) It enables the trader to prepare a Statement to find out the arithmetical accuracy of his accounts. This Statement is known as 'TRIAL BALANCE.'

(3) It helps the trader to find out easily the amount owed by each customer so that reminders can be sent to them in time and enquiries can be promptly answered.

(4) It gives a correct picture of the LIABILITIES of the business to the outsiders. The trader will be in a position to make a plan for the repayment of the liabilities.

(5) It facilitates the preparation of TRADING ACCOUNT to ascertain Gross Profit, PROFIT & LOSS ACCOUNT to find out the Net Profit and BALANCE SHEET to know the financial position of the Business Concern.

SINGLE ENTRY SYSTEM

A discussion will be incomplete without the mention of Single Entry System. In fact this is not a distinct system in the true sense of the term. It is only an incomplete way of recording business transactions.

As the *title* suggests, only one aspect of the transaction is recorded and the other aspect is left out. In the case of Cash transactions, only the Cash side is recorded. In the case of Credit transactions, only the Personal Account is written up.

Two examples will make the position clear :

(1) X has bought Furniture for Rs. 200 cash.

Double entry *In X's Books*	*Single entry* *In X's Books*
(*a*) Furniture comes in. So it is debited.	There is no record for Furniture.
(*b*) Cash goes out. So it is credited.	There is a Cash A/c and it is credited.

(2) X has sold goods on credit to Y for Rs. 300.

Double entry *In X's Books*	*Single entry* *In X's Books*
(*a*) Y is the receiver. So, he is debited.	Y is debited.
(*b*) Goods go out. So, Sales A/c is credited.	There is no Sales A/c.

Therefore, when a trader keeps his accounts in the Single Entry Method, he maintains only (*a*) a Cash A/c and (*b*) Personal Accounts.

DIFFERENCES BETWEEN DOUBLE ENTRY AND SINGLE ENTRY SYSTEM

Double Entry	*Single Entry*
(1) The double aspects of a transaction are recorded.	Only one aspect is recorded.
(2) For every debit, there is a credit of equal amount.	There may be a debit without a corresponding credit and vice versa.
(3) There are Personal Accounts, Real Accounts and Nominal Accounts	There are Personal Accounts, and Cash Account only.
(4) A Trial Balance can be prepared to test the arithmetical accuracy of accounts.	It cannot be prepared, as the Ledger does not contain all accounts.
(5) Trading A/c., Profit & Loss A/c., & Balance Sheet can be prepared.	They cannot be prepared.
(6) Accurate Net Profit can be directly calculated.	Approximate Net Profit can be indirectly calculated.
(7) It involves more clerical labour.	It involves less clerical labour.
(8) It is a perfect system.	It is an imperfect way of Book-Keeping.
(9) Tax Authorities accept this method.	They do not accept it as such.

BOOKS OF ACCOUNT

• Business concerns, which follow the Double Entry System of Book-keeping, maintain a set of Account Books:

Small Concerns

(1) Journal. (2) Ledger.

Large Concerns

(1) Journal. (2) Ledger. (3) Subsidiary Books which are also called as Subsidiary Journals.

SMALL BUSINESS CONCERNS

In a small business concern, the number of transactions are limited. These transactions are at first recorded in the JOURNAL as and when they take place. Subsequently, these transactions are posted in the Appropriate Accounts spread over the various pages of the LEDGER. Therefore, the Journal is known as 'Book of Original Entry' or 'Book of Prime Entry' while the Ledger is known as 'Main Book of Account'.

LARGE BUSINESS CONCERNS

The transactions in such concerns are unlimited. Many transactions simultaneously take place. It is inconvenient and time consuming if the entire volume of transactions is going to be managed with a Journal. After all it is only one book and at a time only one entry can be made in it.

Therefore, a convenient device is made. Smaller Account Books known as Subsidiary Books or Subsidiary Journals are distributed to various sections of the business house. As and when transactions take place, they are recorded in these Subsidiary Books simultaneously without delay. The original Journal (which is known as Journal Proper) is used only occasionally to record those transactions which cannot be recorded in any of the Subsidiary Books.

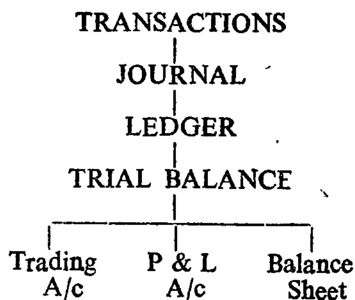
DIFFERENCES BETWEEN JOURNAL AND LEDGER

Journal	*Ledger*
(1) It is the book of original entry.	(1) It is the main book of accounts.
(2) Entries are made as and when transactions occur.	(2) Entries are posted at the convenience of the Trader.
(3) Transactions are entered in the chronological order i.e., according to the dates of the transactions.	(3) Transactions are recorded on the basis of the accounts to which they belong.

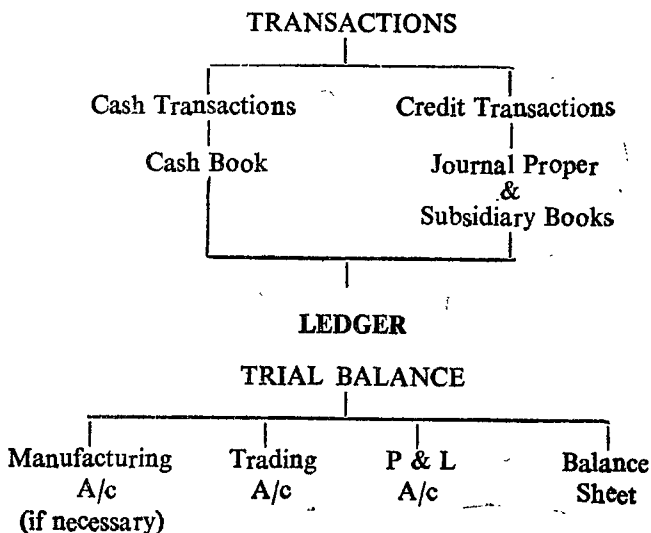
Journal	*Ledger*
(4) Transactions pertaining to a Person or Property or Expense are spread over a number of pages in the Journal.	(4) Transactions relating to a particular Account are found together on a particular page or pages even if they have occurred on different dates.
(5) The final position of a customer (whether he is a Debtor or Creditor) cannot be found out unless one wades through the entire book from the first page to the last.	(5) The final position can be ascertained just at a glance as the transactions are written together on a page or pages in the appropriate sides (Debit and Credit side) of the Account.
(6) It is so ruled as to show the total number of transactions that occur day after day.	(6) It is so ruled as to show the dates on which a particular A/c is Debited or Credited.
(7) Journal loses its importance after the transactions are posted to the Ledger.	(7) It will never lose its importance because it is the Main Book of accounts which is relied upon.
(8) It is not useful to prepare Final Accounts.	(8) It is only from Ledger, that Final Accounts are prepared.
(9) Tax authorities do not rely upon this book.	(9) They rely on the Ledger for assessment purpose.
(10) To reduce the pressure on Journal, Subsidiary Journals are introduced.	(10) In the case of very big concerns, the Ledger itself is subdivided into (*a*) Creditors' Ledger. (*b*) Debtors' Ledger. (*c*) General Ledger.

CHART SHOWING THE RECORDING OF TRANSACTIONS

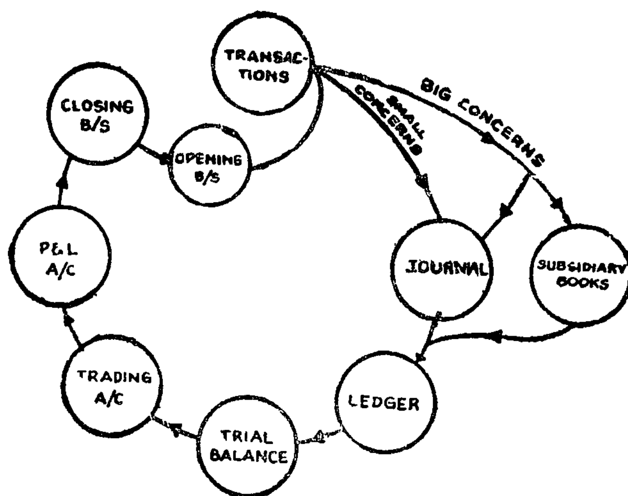
SMALL CONCERNS



LARGE CONCERNS



ACCOUNTING CYCLE



QUESTIONS

(1) What is an Account? What are the various kinds of Accounts? Explain briefly the significance of each kind of Account.

(2) Explain clearly the principles of Double Entry.

(3) How are Accounts classified? What are the rules for journalising transactions?

(4) Explain with examples the rules for debiting and crediting Accounts.

(5) What is Single Entry System? Compare it with Double Entry System of Book-Keeping.

(6) 'For every debit, there should be a corresponding credit'. Explain.

CHAPTER IV

JOURNALISING

Journal

We have already noted that a Journal is the book of Original Entry wherein transactions are first recorded. Though its use is minimised in the modern accounting system, it retains its importance as a Primary Accounting Record.

Its Form

The Journal has five columns as given below :

Date (1)	*Particulars* (2)	*L.F.* (3)	*Debit* (4)	*Credit* (5)
Year Month Date	Name of the A/c to be debited		Rs. P. Amount	Rs. P.
	Name of the A/c to be credited (Narration)			Amount

All the columns are self-explanatory except the third in which the L.F. is written. This means ' Ledger Folio ' (i.e., Ledger Page Number). This column cannot be filled, when we record the transactions ; but only when the entries are posted to certain pages of the Ledger, we can fill in L.F. column. The Debit aspect goes to a specified A/c found on a certain page of the Ledger. On the other hand, the credit aspect is taken to a different Account found on a different page. These page numbers are written in L.F. column so that we can have a cross reference. At the time of Auditing, the auditor verifies whether these entries are posted in the Ledger by referring to L.F column.

Narration

Below each Journal Entry, a brief explanation of the transaction is given within brackets. This is called ' Narration.'

How to Journalise

Many transactions may take place in a business concern. They may involve Cash, Goods, Assets, Expenses, Income, Bank, etc.

What is Involved	Nature	When	What to do	How to do
CASH	It may come into your business.	(*a*) When you invest your Capital for the business. (*b*) When you sell Goods for Cash. (*c*) When you borrow from others. (*d*) When you get an Income.	Debit Cash A/c.	Cash A/c Dr. . . . . To . . . . . .
	It may go out of your business.	(*a*) When you withdraw Cash for your personal expenses from the firm. (*b*) When you buy Goods/Asset for your business. (*c*) When you lend to others. (*d*) When you pay an Expense.	Credit Cash A/c.	. . . . .A/c Dr. . . . To Cash A/c.

What is Involved	*Nature*	*When*	*What to do*	*How to do*
GOODS	It may come into your business.	(*a*) When you buy (either for Cash or on credit). (*b*) When the Goods you have already sold are returned by your customer.	Debit Purchases A/c. Debit Returns Inwards A/c.	Purchases A/c Dr. . . To . . . . . Returns Inwards A/c Dr. . . . . To . . . . .
	It may go out of your business	(*a*) When you sell (either for Cash or on credit). (*b*) When the Goods you have bought are returned by you to your supplier.	Credit Sales A/c. Credit Returns Outwards A/c.	. . . . . A/c Dr. . . . To Sales A/c . . . . A/c Dr. . . . . To Returns Outwards A/c . . . . .
ASSET (*E.g.*, Furniture or Machinery)	It may come into your business. It may go out of your business.	(*a*) When you buy (for cash or on credit). (*b*) When you sell it or return it.	Debit the Asset. A/c Credit the Asset. A/c	Asset A/c Dr. . . . . To . . . . Dr. . . . To Asset A/c
PERSONS OR FIRM	He/It may receive a benefit without payment.	(*a*) When he/it buys Goods on credit. (*b*) When he/it uses your services.	Debit the Person or the Firm's A/c	Person/Firm A/c Dr. . . . . To . . . .

	He/It may give you the benefit without getting payment from you.	**(a) When he/it sells goods to you on credit.** **(b) When you use his/its services.**	**Credit the Person or the Firm's A/c**	**...... Dr.....** **To Person/Firm A/c .....**
Expenses or Income	*E.g.*, Salary, Rent, Advertisement. *E.g.* Commission Received, Dividend Received, Interest Received.	(*a*) When you have paid/to pay for these expenses. (*b*) When you have received/to receive these incomes.	Debit the concerned expenses A/c. Credit the Income A/c.	Expenses A/c Dr.... To .... A/c Dr..... To Income A/c
Bank	It receives your money.	(*a*) When you deposit your cash. (*b*) When the bank allows interest on your account. (c) When somebody deposits money in your favour.	Debit Bank A/c.	Bank A/c Dr.... To ....
	It may give you money or it may grant its own money by way of O/D or Loan.	(*a*) When you withdraw cash by a cheque. (*b*) When you borrow from the Bank.	Credit Bank A/c.	.... Dr.... To Bank A/c

Any transaction, as we know, has two aspects. Therefore, it involves two accounts. We should identify these two accounts and write the journal entry following the fundamental rules :

No.	*Class of Account*	*Rule of Account*
(1)	Personal A/c	Debit the Receiver of benefit (in cash or kind) Credit the Giver of benefit (in cash or kind).
(2)	Real or Property A/c	Debit What comes in (cash or kind). Credit What goes out (cash or kind)
(3)	Nominal or Fictitious A/c.	Debit Expenses or Losses. Credit Incomes or gains.

ILLUSTRATION No. 1

Journalise the following transactions :

1-1-1974 Ravi commenced his business with a Capital of Rs. 9,000.

2-1-1974 He bought Goods for Cash Rs. 4,000.

3-1-1974 He deposited in Indian Overseas Bank (Opened a Bank A/c) Rs. 3,000.

4-1-1974 He gave a loan to his friend Mr. Rama, another trader Rs. 2,000.

PROCEDURE

No.	*A/c involved in the Debit aspect*	*A/c involved in the Credit aspect*
(1)	Cash comes into the business.	Ravi is the giver. He gives cash as his capital.
(2)	Purchased Goods (i.e.) *purchases* come in.	Cash goes out.
(3)	Indian Overseas Bank receives the money.	Cash goes out.
(4)	Rama receives the money as loan.	Cash goes out.

JOURNAL OF RAVI

Date	*Particulars*	*L.F*	*Debit*	*Credit*
			Rs. P.	Rs. P.
1974 Jan 1	Cash A/c Dr.		9,000 —	
	To Ravi's Capital A/c			9,000 —
	(Being the amount invested in the business)			
2	Purchases A/c Dr.		4,000 —	
	To Cash A/c			4,000 —
	(Being cash purchases made)			
3	Indian Overseas Bank A/c Dr.		3,000 —	
	To Cash A/c			3,000 —
	(Being the deposit made)			
4	Rama's Loan A/c Dr.		2,000 —	
	To Cash A/c			2,000 —
	(Being loan given)			
	Total		18,000 —	18,000 —

ILLUSTRATION No. 2

Journalise the following :

5-1-1974 Sold Goods for Cash Rs. 1,00C.

6-1-1974 Sold Goods to Mohan on credit Rs. 1,500.

7-1-1974 Bought Goods for Cash Rs. 700.

8-1-1974 Bought Goods from Murali & Sons on credit Rs. 900.

9-1-1974 Bought Furniture for Cash Rs. 200.

10-1-1974 Bought Furniture on credit from the Modern Furniture Mart Rs. 4,000.

11-1-1974 Mohan returned Goods worth Rs. 300.

12-1-1974 Part of the Goods bought from Murali & Sons worth Rs. 400 are returned to them.

PROCEDURE

No.	*A/c. involved in the Debit Aspect*	*A/c. involved in the Credit Aspect*
(1)	Cash comes in	Sold Goods (sales) go out.
(2)	Mohan receives benefit	Sold Goods (sales) go out.
(3)	Purchased Goods (Purchases) come in	Cash goes out.
(4)	Goods come in	Murali gives the benefit.
(5)	Furniture comes in	Cash goes out.
(6)	Purchased Goods (Purchases) come in	Modern Furniture Mart gives the benefit.
(7)	Returns Inwards (Sales Returns) come in	Mohan gives the benefit.
(8)	Murali receives the benefit	Returns Outwards (Purchases Returns) go out.

JOURNAL OF RAVI

	Date	Particulars	L.F.	Debit	Credit
				Rs. P.	Rs. P.
1974 Jan	5	Cash A/c Dr. To Sales A/c (Being cash sales)		1,000 —	1,000 —
	6	Mohan A/c Dr. To Sale A/c (Being credit sales to Mohan)		1,500 —	1,500 —
	7	Purchases A/c Dr. To Cash A/c (Being cash purchases)		700 —	700 —
	8	Purchases A/c Dr. To Murali & Sons A/c (Being credit purchase from Murali & Sons)		900 —	900 —
	9	Furniture A/c Dr. To Cash A/c (Being cash purchase of furniture)		200 —	200 —
	10	Furniture A/c Dr. To Modern Furniture Mart A/c (Being credit purchase from Modern Furniture Mart)		4,000 —	4,000 —
		C/o.		8,300 —	8,300 —

JOURNAL OF RAVI—(*Contd.*)

Date	*Particulars*	*L.F.*	*Debit*	*Credit*
	B/f		8,300 —	8,300 —
11	Returns Inwards A/c Dr. (Sales Returns A/c)		300 —	
	To Mohan A/c			300 —
	(Being the goods returned by Mohan)			
12	Murali & Sons A/c Dr.		400 —	
	To Returns Outwards A/c			400 —
	(Purchases Returns A/c) (Being the goods returned to Murali & Sons)			
	Total		9,000 —	9,000 —

ILLUSTRATION No. 3

S. No.

(1) 14-1-74 Ravi introduced capital of Rs. 4,000.

(2) 14-1-74 Withdrew from Indian Overseas Bank Rs. 1,500.

(3) 15-1-74 Bought for office use a very old car for Rs. 3,000.

(4) 16-1-74 Paid Advertisement Charges to 'The Mail' Rs. 400.

(5) 31-1-74 Paid the Shop Rent Rs. 250 to Mani, the owner of the building.

(6) „ Paid his two clerks—Muthu & Kittu Rs. 200 each as Salary.

(7) „ Received Commission Rs. 150 from Sakthi & Co. the stationery suppliers.

(8) „ Received a cheque for Dividend Rs. 75 from E.I.D. Parry Ltd.

(9) „ Robert has agreed to pay Interest of Rs. 7.

(10) „ Ravi drew Rs. 150 from the business for his personal expenses.

(11) „ Electric Charges amount to Rs. 30.

(12) „ Robert has repaid his dues of Rs. 2,000 with interest.

(13) „ Paid Fire Insurance Premium for the shop Rs. 80 to the Premier Fire Insurance Company.

(14) „ Indian Overseas Bank has allowed Rs. 40 interest on credit balance.

(15) „ Indian Overseas Bank has charged Rs. 15 for their services.

PRECAUTIONS

Before we work out the procedure, it is quite necessary to have very careful look at some of the transactions.

S. No. of the transaction	Explanation	Debit	Credit
4	The business has paid to 'The Mail'. But 'The Mail' is not the receiver of any benefit. They have received only their charges.	Advertisement A/c	Cash A/c
5	Mani is not the receiver of any benefit. He has received his dues.	Rent A/c	Cash A/c
6	Muthu & Kittu are not receiving any benefit. They have received their salaries which are due to them.	Salaries A/c	Cash A/c
7	Sakthi & Co. is not the giver of any benefit. They paid what is due to the business. Commission is an income for the business whoever gives it.	Cash A/c	Commission A/c
8	E.I.D. Parry has paid what is due to the business as an income. It is not the giver of any benefit.	Cash A/c	Dividend A/c
9	Interest accrued on Robert's Loan.	Accrued Interest A/c	Interest A/c

PRECAUTIONS—(*Contd.*)

S. No. of the transaction	*Explanation*	*Debit*	*Credit*
10	When the proprietor withdraws cash from the business, let us not disturb his Capital A/c. Let us open a separate account called Drawings A/c.	Drawings A/c	Cash A/c
12	When Robert pays his dues with interest.	Cash A/c	Robert's Loan Accrued Interest A/c
13	Fire Insurance Company is not receiving any benefit. We are paying only a certain expense.	Fire Insurance Premium A/c	Cash A/c
14	Indian Overseas Bank has to pay the business Rs. 40. The money is not in cash. Till it is paid, Indian Overseas Bank remains a **debtor**. (Even if it has credited the customer's A/c, it remains a debtor.)	Indian Overseas Bank A/c	Interest A/c
15	Bank charges is an expense. Till it is paid, Indian Overseas Bank remains a creditor. (The Bank may debit the customer's A/c in its books ; even then, till the amount is paid by the customer, it is a credit.)	Bank Charges A/c	Indian Overseas Bank A/c

PROCEDURE

S. No.	*A/c involved in the Debit Aspect*	*A/c involved in the Credit Aspect*
1.	Cash comes in	Ravi pays as Capital.
2.	Cash comes in	Bank gives.
3.	Car comes in	Cash goes out
4.	Advertisement is an expense	,,
5.	Rent is an expense	,,
6.	Salary is an expense	,,
7.	Cash comes in	Commission is an Income.
8.	Cash (or Cheque) comes in	Dividend as an income.
9.	Accrued Interest A/c is deemed to have benefited.	Interest is an income.
10.	Drawing A/c receives the benefit	Cash goes out.
11.	Electric Charges is an expense	Cash goes out.
12.	Cash comes in	Robert's Loan A/c Accrued interest gives the benefit.
13.	Insurance Premium is an expense	Cash goes out.
14.	(Indian Overseas) Bank is the receiver of the benefit	Interest is an income.
15.	Bank charge is an expense	(Indian Overseas) Bank is the giver of this service.

JOURNAL OF RAVI

Date	*Particulars*		*L.F.*	*Debit*	*Credit*
				Rs. P.	Rs. P.
1974 Jan. 14	Cash A/c To Ravi's Capital A/c (Being additional capital)	Dr.		4,000 —	4,000 —
„	Cash A/c To (Indian Overseas) Bank A/c (Being the withdrawal)	Dr.		1,500 —	1,500 —
15	Car A/c To Cash A/c (Being car purchased)	Dr.		3,000 —	3,000 —
16	Advertisement Charges A/c To Cash A/c (Being advertisement paid)	Dr.		400 —	400 —
31	Rent A/c To Cash A/c (Being rent paid)	Dr.		250 —	250 —
„	Salaries A/c To Cash A/c (Being salary paid)	Dr.		400 —	400 —
„	Cash A/c To Commission A/c (Being commission received)	Dr.		150 —	150 —
„	Cash A/c To Dividend A/c (Being dividend received)	Dr.		75 —	75 —
	C/o			9,775 —	9,775 —

JOURNAL OF RAVI—(Contd.)

Date	Particulars	L.F.	Debit	Credit
	B/f		9,775 —	9,775 —
31	Accrued Interest A/c Dr.		7 —	
	To Interest A/c			7 —
	(Being interst receivable)			
"	Drawings A/c Dr.		150 —	
	To Cash A/c			150 —
	(Being cash drawn for personal use)			
"	Electric Charges A/c Dr.		30 —	
	To Cash A/c			30 —
	(Being electric charges paid)			
"	Cash A/c Dr.		2,007 —	
	To Robert's Loan A/c			2,000 —
	Accrued Interest A/c			7 —
	(Being loan repaid by customer Rs. 2,000+Rs. 7)			
"	Fire Insurance Premium A/c Dr.		80 —	
	To Cash A/c			80 —
	(Being Insurance premium paid)			
"	(Indian Overseas) Bank A/c Dr.		40 —	
	To Interest A/c			40 —
	(Being interest earned)			
"	Bank Charges A/c Dr.		15 —	
	To (Indian Overseas) Bank A/c			15 —
	(Being Bank charges payable)			
	Total		12,104 —	12,104 —

ILLUSTRATION No. 4

1-2-74 Bought a Cycle for office for Rs. 400 cash.
Bought Typewriter for office for Rs. 2,000 cash.
Bought a Wall Clock for office for Rs. 500 cash.

2-2-74 Sold Goods on credit to John Rs. 200, to Kasim Rs. 300, to Bhagat Rs. 400.

3-2-74 Bought Goods on credit from Banu Rs. 500
Budia & Co. Rs. 700
Binny & Co. Rs. 800.

4-2-74 Paid for Advertisement in 'The Hindu' Rs. 500.
Paid for purchase of stationery from Chitra & Co. Rs. 600.
Paid for Carriage of goods by ABT Parcel Service Rs. 700.
Paid for wages Rs. 800.

5-2-74 The Proprietor has brought in further cash Rs. 7,000. Furniture worth Rs. 3,000, Stock worth Rs. 5,000 and gave for business purposes Building worth Rs. 25,000.

6-2-74 Bought Goods from Ravindra & Bros. for Rs. 2,400 on credit.

7-2-74 Sold Goods to Asirvatham & Co. for Rs. 3,000 on credit.

8-2-74 Paid Ravindra & Bros. amount due to them less 5% Discount.

9-2-74 Asirvatham & Co. settled their account at a Discount of 2%.

9-2-74 John who owed Rs. 200 for Purchases made on 2-2-74 gave a Promissory Note (Pro-note).

Precaution

When certain transactions take place on a certain date, and if they are of similar nature then we can combine the transactions and pass the Journal entries. The only precaution is that the total debit should be equal to total credit.

JOURNAL OF RAVI

Date		Particulars	L.F.	Debit	Credit
				Rs. P.	Rs. P.
1974 Feb.	1	Cycle A/c Dr.		400 —	
		Typewriter A/c Dr.		2,000 —	
		Wall Clock A/c Dr.		500 —	
		To Cash A/c			2,900 —
		(Being the purchase of office accessories)			
	2	John A/c Dr.		200 —	
		Kasim A/c Dr.		300 —	
		Bhagat A/c Dr.		400 —	
		To Sales A/c			900 —
		(Being credit sales to customers)			
	3	Purchase A/c Dr.		2,000 —	
		To Banu A/c			500 —
		To Budia & Co. A/c			700 —
		To Binny & Co. A/c			800 —
		(Being credit purchases from parties)			
	4	Advertisement A/c Dr.		500 —	
		Stationery A/c Dr.		600 —	
		Carriage Inwards A/c Dr.		700 —	
		Wages A/c Dr.		800 —	
		To Cash A/c			2,600 —
		(Being expenses met)			
	5	Cash A/c Dr.		7,000 —	
		Furniture A/c Dr.		3,000 —	
		Stock A/c Dr.		5,000 —	
		Building A/c Dr.		25,000 —	
		To Ravi's Capital A/c			40,000 —
		(Being the various assets brought in by the proprietor for the business)			
		C/o		48,400 —	48,400 —

JOURNAL OF RAVI—*cont.*

Date		Particulars	L.F.	Debit	Credit
				Rs. P.	Rs. P.
		b/f		48,000 —	48,000 —
1974 Feb.	6	Purchase A/c Dr. To Ravindra & Bros A/c (Being credit purchase)		2,400 —	2,400 —
	7	Asirvatham & Co. A/c Dr. To Sales A/c (Being credit sales)		3,000 —	3,000 —
	8	Ravindra & Bros. A/c Dr. To Cash A/c ,, Discount A/c (Being the payment to Ravindra & Bros., less discount)		2,400 —	2,280 — 120 —
	9	Cash A/c Dr. Discount A/c Dr. To Asirvatham & Co. A/c (Being receipt of cash from Asirvatham & Co., less discount)		2,940 — 60 —	3,000 —
	10	Bills Receivable A/c Dr. To John A/c (Being pronote received)		200 —	200 —
		Total		59,400 —	59,400 —

ILLUSTRATION NO. 5

On 1st Jan. 1974 the position of the business of **Mr. Hameed** is as follows :

Parties to whom money is payable (Creditors) Rs. 2,000	Cash in hand	Rs.	400
	Cash at Bank	Rs.	800
	Stock of Goods	Rs.	3,000
	Customers (Debtors)	Rs.	4,000
	Furniture and Fixtures	Rs.	1,500

His transactions during the month of January are as under :

Jan. 7 Collection from customers Rs. 2,500.

8 Sold Goods to Muthu Rs. 1,800.

9 Drawn from Bank for office use Rs. 300.

10 Bought Goods by cheques Rs. 500.

11 Banked Rs. 400.

15 Got a loan from his father-in-law Mr. Usman Rs. 5,000.

17 Sold goods to Anand Rs. 600.

18 Received a cheque from Anand Rs. 600.

19 Bought goods from Ahmed on credit Rs. 4,000.

24 Accepted Ahmed's Bill Rs. 4,000.

27 Paid Rent by cheque Rs. 400.

28 Paid Ahmed's Bill.

29 Drew for private use Rs. 100.

30 Muthu settled his A/c by cheque for Rs. 1,750.

31 Salary due but not yet paid Rs. 300.

Give the opening entry and journalise the above transactions.

JOURNAL OF HAMEED

Date		Particulars	L.F.	Debit	Credit
				Rs. P.	Rs. P.
1974 Jan.	1	Cash A/c Dr. Bank A/c Dr. Stock of Goods A/c Dr. Sundry Debtors A/c Dr. Furniture & Fixtures A/c Dr. To Sundry Creditors A/c To Hameed's Capital A/c (Being the opening entry to record assets & liabilities of Mr. Hameed as on 1-1-74, the difference between the assets & liabilities being capital)		400 — 800 — 3,000 — 4,000 — 1,500 —	 2,000 — 7,700 —
	7	Cash A/c Dr. To Sundry Debtors A/c (Being collections from debtors)		2,500 —	2,500 —
	8	Muthu A/c Dr. To Sales A/c (Being credit sales)		1,800 —	1,800 —
	9	Cash A/c Dr. To Bank A/c (Being cash received from Bank)		300 —	300 —
	10	Purchase A/c Dr. To Bank A/c (Being payment from bank)		500 —	500 —
		C/o		14,800 —	14,800—

JOURNAL OF HAMEED—*cont*

Date		*Particulars*	*L.F.*	*Debit*	*Credit*
				Rs. P	Rs. P
		b/f		14,800 —	14,800 —
1974 Jan.	11	Bank A/c Dr. To Cash A/c (Being cash deposited in the Bank)		400 —	400 —
	15	Cash A/c Dr. To Usman's Loan A/c (Being loan received)		5,000 —	5,000 —
	17	Anand A/c Dr. To Sales A/c (Being credit sales)		600 —	600 —
	18	Cash A/c Dr. To Anand A/c (Being cheque received from Anand, cheque can be treated as cash)		600 —	600 —
	19	Purchases A/c Dr. To Ahmed A/c (Being credit purchases)		4,000 —	4,000 —
	24	Ahmed A/c Dr. To Bills Payable A/c (Being the payable bill accepted and given to Ahmed)		4,000 —	4,000 —
	27	Rent A/c Dr. To Bank A/c (Being rent paid through Bank)		400 —	400 —
		C/o		29,800 —	29,800 —

JOURNAL OF HAMEED—*cont.*

Date		*Particulars*		*L.F.*	*Debit*	*Credit*
					Rs. P.	Rs. P.
		b/f			29,800 —	29,800 —
1974 Jan	28	Bills Payable A/c To Cash A/c (Being the payment for the Bill made)			4,000 —	4,000 —
	29	Drawings A/c To Cash A/c (Being Cash withdrawn by the Proprietor for his own use)	Dr.		100 —	100 —
	30	Cash A/c Discount A/c To Muthu A/c (Being the receipt of cheque in full settlement and difference being the discount allowed)	Dr. Dr.		1,750 — 50 —	1,800 —
	31	Salaries A/c To Outstanding Salary A/c (Being the salaries payable)	Dr.		300 —	300 —
		Total			36,000 —	36,000 —

QUESTIONS

OBJECTIVE TYPE

I. *Point out whether the following statements are 'True' or 'False':—*

(*a*) Assets are increased by losses and decreased by profits.

(*b*) Revenue is not increased by taking loans although assets are increased.

(*c*) Total of Assets is equal to Liabilities plus Capital.

(*d*) A transaction which decreases the Capital is called Income.

(*e*) Amount owed to the Proprietor is called Capital.

II. *Fill in blanks with the words 'Debit' or 'Credit':*

1 ——— the receiver and ——— the giver.

2 The left hand side of an account is called ——— side and the right hand side is called ——— side.

3. ——— all expenses and losses, ——— all gains and incomes.

III. *In each of the following, indicate the alternative which you consider to be correct:*

1. A sale of Goods to Ram for cash should be debited to
   (*a*) Ram A/c (*b*) Cash A/c (*c*) Sales A/c

2. Withdrawal of cash from Business by the Proprietor should be credited to
   (*a*) Drawings A/c (*b*) Capital A/c (*c*) Cash A/c.

3. Cash Account is
   (*a*) Personal A/c (*b*) Real A/c (*c*) Nominal A/c.

IV. *State which account is to be debited and which account is to be credited in the following transactions :*

(1) Bought Goods of Govind.

(2) Sold to Sharma.

(3) Bought of Ramlal.

(4) Paid Rent by Cheque.

(5) Paid Salaries in Cash.

V *Purchase of goods from Ram on credit should be credited to*
(1) Ram A/c (2) Cash A/c (3) Purchases A/c

VI. *The following Journal Entries have been made by a student. You are required to pass correct entries wherever you think :*

(*a*) Brought Capital into Business :

Capital A/c Dr.
To Cash A/c

(*b*) Cash Purchases :

Cash A/c Dr.
To Sales A/c

(*c*) Salaries due to Clerk :

Salaries A/c Dr.
To Cash A/c

(*d*) Paid Carriage :

Carriage A/c Dr.
To Cash A/c

VII *What do the following Journal Entries mean ?*

(*a*) Cash A/c Dr.
To Furniture A/c

(*b*) Rent A/c Dr.
To Cash A/c

(*c*) Bank A/c Dr.
To Cash A/c

OTHER QUESTIONS

I. What is a Journal and how is it ruled ?

II. What is a ' Narration ' ?

III. What do you mean by L.F. ? How do you fill in this column ?

IV. Explain the rules for Journalising and show by six examples how these rules should be intelligently applied ?

V. What is ' Capital ' and what are ' Assets ' and ' Liabilities ' ?

VI. Journalise the following in the Journal of Mr. David:

1974			Rs.
Jan.	1	Received Cash from Ram & Co., ..	5,000
	7	Paid Cash to Narain & Sons ..	2,000
	12	Sold Goods for Cash ..	700
	18	Sold Goods on credit to Prasad ..	800
	24	Bought Goods for Cash ..	2,000
	31	Bought Goods on credit from Ramesh & Co. ..	2,400

VII. Journalise the following transactions in Mrs. Gowri's Journal :

1974			Rs.
Feb.	5	Mrs. Gowri commenced business with a capital of ..	10,000
	7	Out of the above amount, opened a Current A/c with Bank of Baroda ..	5,000
	12	Bought Goods for Cash ..	2,500
	15	Bought Goods from Arunachalam & Co. ..	4,000
	16	Paid Arunachalam & Co. ..	2,500
	19	Sold Goods on credit to Mohandoss ..	1,800
	28	Mohandoss settled his A/c	

VIII. Journalise the following transactions in the Journal of Kuppuswamy :—

1974			Rs.
Mar.	1	Commenced business with a Stock of ..	2,500
		and Cash ..	7,500
	5	Bought Goods on credit from Anbu ..	4,000
	9	Bought Goods from Kannan for Cash ..	3,000

			Rs.
12	Sold Goods on credit to Shyam	..	1,700
15	Paid Anbu his dues at a Discount of 5%	..	
16	Received Cash from Shyam	..	1,615
	Allowed him Discount	..	85
19	Bought Furniture from Modern Furniture Depot		1,800
20	Paid towards the above by cheque	..	300
25	'The Hindu' published the Advertisement at a cost of Rs. 75 but the amount is still payable		
26	Drew for Private use	..	150
28	Bought Postage Stamps	..	60
30	Paid for Electricity Charges	..	120
31	Drew Cash from Bank for office use	..	1,600

IX. The following are the transactions of M/s. Sastry & Co. for the Month of March 1974. Journalise them in their Journal.

1974				Rs.
Mar. 1	Started business with	Stock	..	4,000
		Cash	..	3,000
		Furniture	..	1,000
		Debtors	..	2,000
2	Paid into the Bank		..	1,500
3	Bought Goods for		..	1 000
	and Furniture for		..	300
4	Sold to M/s. Sampath & Co. for Cash		..	1,500
	and on credit		..	700
6	Received a cheque from Sampath & Co.		..	700
7	Sold unwanted Furniture for Cash		..	250
9	Bought a second-hand Typewriter for office use for Cash		..	400
11	Bought one Adding Machine on credit from Office Equipment Ltd., for office use		..	700
12	Received Rent for a portion of the shop building sublet		..	25
15	Paid Wages		..	170
	Carriage of Goods to godown		..	130
	Office Expenses		..	100

			Rs.
20	Bought Stationery for	..	100
	Postage Stamps for	..	50
23	Received Commission	..	75
	and Dividend	..	25
25	Drew Cash for private use	..	100
27	Drew from Bank for private use	..	200
29	Paid Office Equipment Ltd.,	..	700
	and also Interest to them		5
30	Out of Debtors of Rs. 2,000 the total amount collected is only 1,900 and one customer has absconded and the amount of Rs. 100 due from *him is treated as Bad.*		

X. Mr. Subbiah has commenced his business on 1st Jan. 1974 with the following :

			Rs.
Creditors Rs. 4,000	Cash on hand	..	2,000
	Cash at Bank	..	3,000
	Debtors	..	4,000
	Stock of Goods		5,000

His transactions during January are given below. Give the opening entry and Journalise the transactions.

Jan.	5	Bought for Cash, Furniture Rs. 500, Typewriter Rs. 800, Stationery Rs. 200, Goods Rs. 500		
	7	Purchased Goods by issuing cheque for .	Rs.	2,000
	9	Bought from Rengaraj & Co. on credit for	Rs.	5,000
	10	Bought from Simon Bros., for Rs. 4,000 and paid Cash Rs. 2,000 and for the balance gave a pronote.		
	12	Sold for Cash, Goods Rs. 1,400, Old Furniture Rs. 300, Old Typewriter Rs. 400		
	14	Sold Goods for Rs. 3,000 to Mohan who paid Rs. 1,500 and gave a pronote for the balance.		
	15	Paid for the Household Expenses .	Rs.	250
	16	Lent to Prathap ..	Rs.	500
		Borrowed from Prem Lal at 10% interest ..	Rs.	5,000
	17	Paid Salaries Rs. 400, Rent Rs. 330, Wages Rs. 150, Stationery Rs. 75.		

		Rs.
18	Paid Fire Insurance Premium for the shop .	300
	and Premium of Proprietor's Life Policy ..	750
19	Returned to Rengaraj & Co. Goods which are defective .	700
21	Sold Goods to Vasant on credit .	1,400
24	Vasant returned defective Goods ..	400
25	Vasant deposited directly in our Bank A/c	1,000
26	Mr. Badri paid Commission .	250
28	M. Mathi had to pay a Commission and till it is not received ..	150
29	Rent paid to Mrs. Syamala Devi the landlady ..	300
30	Salary remains unpaid to Sampath Kumar, the Clerk ..	250
31	Prathap paid Rs. 500 plus Interest Rs. 2.50	
32	Premlal's Loan is repaid with Interest for half a month.	

XI. Mr. Baluswamy opened his business with the following on 1st April 1974 :

	Rs.
Cash on Hand	5,000
Cash at Bank	10,000
Stock of Goods	16,000
Furniture	3,000
Sundry Creditors	4,000

The following are his transactions during April.
Give the opening entry and journalise his transactions.

April 4 Bought Goods against Cash Rs. 2,000
against Cheque Rs. 3,000

5 Bought of Menon on credit for Rs. 6,000 and gave him a cheque for Rs. 3,000.

10 Defective Goods returned to Sridar Rs. 270.

15 Sale of *Empties for cash* Rs. 75.

16 Till takings (Sales) for the first two weeks Rs. 5,000.

17 Purchased a Cycle for office use Rs. 300 and a Moped for Rs. 3,000 for proprietor's use and paid both by cheques.

20 Opened a Current A/c in Canara Bank Rs. 2,000.

22 Brown owes a Commission of Rs. 150.

25 Withdrew for personal use Cash Rs. 100 and Goods worth Rs. 300.

31 Salary Rs. 180, Rent Rs. 120, Wages Rs. 100 remain unpaid.

XII. Comment on the following journal entries passed by your friend :

(*a*) When he sells goods for cash to Vincent for Rs. 1,000 :

Vincent A/c	Dr.	Rs. 1,000	
To Goods A/c			Rs. 1,000

(*b*) When he pays Salary to Kandaswamy Rs. 500 :

Kandaswamy A/c	Dr.	Rs. 500	
To Salaries A/c			Rs. 500

(*c*) When a Commission of Rs. 45 is received from Rajan.

Commission A/c	Dr.	Rs. 45	
To Rajan A/c			Rs. 45.

XIII. Your friend Sri Nagaraj has made the following entries in his Journal. Point out the wrong entries and correct them.

1973			Rs.	Rs.
June 30	Kumaraswamy A/c	Dr.	300	
	To Salay A/c			300
	(Being salary paid to clerk)			
,,	Landlord A/c	Dr.	250	
	To Cheque A/c			250
	(Being rent paid by cheque)			
,,	Vasan A/c	Dr.	500	
	To Nagaraj A/c			500
	(Being credit sale of goods)			
,,	Commission A/c	Dr.	120	
	To Muthuswamy & Co.,			120
	(Being commission received)			
,,	Goods A/c	Dr.	600	
	To Cash A/c			600
	(Being the cash purchases of furniture)			

XIV. When you ask for explanation for entries, in Problem No. XIII, Nagaraj says that he applied the following rules. Offer your comments.

FIRST ENTRY :	Debit the receiver Credit what goes out.
SECOND ENTRY :	Debit the receiver Credit what goes out.
THIRD ENTRY :	Debit the receiver Credit the giver.
FOURTH ENTRY	Debit what comes in Credit what goes out.
FIFTH ENTRY :	Debit what comes in Credit what goes out.

XV. Journalise the following transactions in Mukundan's books :—

1965 August

8 Sold Goods to Mohan on credit Rs. 1,300.

9 Bought Goods for Cash from Soman Rs. 300.

10 Met Travelling Expenses Rs. 300.

11 Received an amount of Rs. 8,000 from Krishna as loan.

12 Returned damaged goods to Parmeswaran Rs. 800.

13 Received Rs. 200 towards Insrurance claim of fire.

14 Paid Fire Insurance Premium Rs. 800.

15 Wrote off 10% on Furniture worth Rs. 2,800 towards breakages.

16 Paid Gratuity to worker's family Rs. 300.

CHAPTER V

LEDGER POSTING

We know how to record business transactions in the Journal. As you have learnt earlier, business transactions are recorded in this book as and when they occur. When a customer buys from you on different dates, his transactions are entered on different pages in the Journal. Therefore, it is not possible to know at a glance what amount a customer owes unless all the entries relating to his account are brought together on a page in the shape of an account. Exactly, for this purpose Ledger, is maintained.

Ledger, therefore, is the main or the principal book of account. Transactions recorded in the Journal and the Subsidiary Journals (about which we shall see later) are transferred to the concerned Accounts in the Ledger in a summarised and classified form. The transferring process is known as **Posting**.

Ledger is usually a thickly bound notebook. Its pages are consecutively numbered. Each Account is allotted one or more pages in the Ledger. If one page is completed, the Account will be continued in the next or some other page.

Advantages of a Ledger

(1) The Journal gives information regarding various transactions datewar. But the Ledger gives information regarding all transactions of a particular account whether it is a Personal A/c, Real A/c, or Nominal A/c.

(2) In the Journal one Account is debited and another Account is credited. But the final effect of a series of transactions of a certain customer or a certain property or a certain expense cannot be disclosed by the Journal It is not designed and ruled in that way. But in a Ledger, the final effect is known at a glance.

(3) Similarly the Journal could not provide immediately the totality of certain dealings. For example, it could not give the Total Purchases, Total Sales, Total Expenditure on a specified head. This is possible only in the Ledger.

Ledger Account

Ledger consists of numerous Accounts. These are Accounts of persons, firms, properties, expense, income, etc.

The specimen of an Account is as follows :

NAME OF ACCOUNT

Dr. *Cr.*

Date	*Parti-culars*	*J.F.*	*Amount*	*Date*	*Parti-culars*	*J.F.*	*Amount*
Year Month date	To (Name of credit element)		*Rs. P.*	Year Month date	By (Name of debit element)		*Rs. P.*

The 'J.F.' is the Journal Folio column. The page number of the Journal wherefrom the credit element is transferred will be recorded the Debit side and the page number of the Journal wherefrom debit element is transferred will be recorded in the Credit side.

Loose Leaf Ledger

The Ledger that is normally used in a majority of business concerns is a bound book, so that it can be preserved for a long time. But in bigger concerns bound books may not be used. Appropriately ruled sheets of thick paper are introduced and fixed up with the help of a binder. The sheets can be removed whenever necessary. Therefore, this type of Ledger is known as Loose Leaf Ledger.

There is ofcourse a danger that irresponsible employee can remove a sheet. To prevent such removal, this type of Ledger itself is locked and the key will be with a responsible official.

Sub-division of Ledger

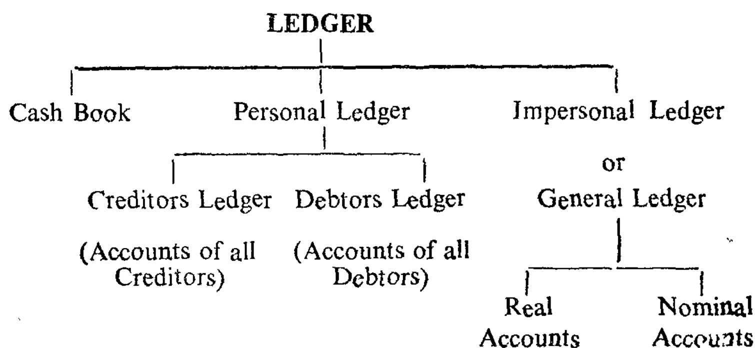
In a small business concern all accounts (Personal, Real and Nominal) can be maintained in one Ledger and in one Cash Book. In a broad sense, Cash Book is also a part of the Ledger. But in

bigger concerns, accounts are too many. Therefore, Ledger is further subdivided. The following ledgers are in use :—

(*a*) *The Creditors Ledger*: All accounts of creditors will be found in this book. It can be called ' Bought Ledger ' or ' Suppliers' Ledger ' also.

(*b*) *The Debtors Ledger :* All accounts of debtors will be found in this book. It can be called ' Sold Ledger ' or ' Customers' Ledger ' also.

(*c*) *General Ledger :* It contains all accounts other than debtors and creditors. Accounts of properties, expenses, incomes, capital, drawings, etc., will be found in this book. It can be called ' Impersonal Ledger ' also.



POSTING

ILLUSTRATION 1

1972 Jan 1 Bought goods on credit from David for Rs. 2,000

Solution

Purchases A/c	Dr.	Rs. 2,000	
To David A/c			Rs. 2,000
(Being credit purchase)			

Explanation

There are two Accounts involved :

(1) Purchases A/c
(2) David A/c

We should allot in the Ledger a page for each Account.

PURCHASES ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
1972 Jan. 1	To David A/c		2,000				

DAVID ACCOUNT

Dr. *Cr.*

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
				1972 Jan. 1	By Purchases A/c		2,000

ILLUSTRATION 2

Journalise the following transactions in the books of Sri Baskar and post them in the Ledger :—

			Rs.
1972 March	1	Sold Goods for Cash ..	2,600
	2	Bought Goods for Cash .	200
	3	Bought Goods on Credit from Kumar .	3,000
	4	Sold Goods on credit to Manickam ..	4,000
	5	Received from Manickam .	2,500
	6	Paid to Kumar .	2,000
	7	Bought Furniture for Cash .	300

Explanation :

There are six accounts involved : (*a*) Purchases A/c (*b*) Sales A/c (*c*) Cash A/c, (*d*) Kumar A/c, (*e*) Manickam A/c, (*f*) Furniture A/c.

JOURNAL OF SRI BASKAR

Date	Particulars	L.F.	Debit	Credit
			Rs. P.	Rs. P.
1972 March 1	Cash A/c Dr.		2,600 —	
	To Sales A/c			2,600 —
	(Being cash sales)			
2	Purchases A/c Dr.		200 —	
	To Cash A/c			200 —
	(Being cash purchases)			
3	Purchases A/c Dr.		3,000 —	
	To Kumar A/c			3,000 —
	(Being credit purchases)			
4	Manickam A/c Dr.		4,000 —	
	To Sales A/c			4,000 —
	(Being credit sales)			
5	Cash A/c Dr.		2,500 —	
	To Manickam A/c			2,500 —
	(Being cash received)			
6	Kumar A/c Dr.		2,000 —	
	To Cash A/c			2,000
	(Being cash Paid)			
7	Furniture A/c Dr		300 —	
	To Cash A/c			300 —
	(Being purchases of furniture)			
	Total		14,600 —	14,600 —

Dr. **CASH ACCOUNT** Cr.

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
1972 Mar. 1	To Sales A/c		2,600	1972 Mar. 2	By Purchases A/c		200
5	,, Manickam A/c		2,500	6	,, Kumar A/c		2,000
				7	,, Furniture A/c		300

Dr. **PURCHASES ACCOUNT** Cr.

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
1972 Mar. 2	To Cash A/c		200				
3	,, Kumar A/c		3,000				

Dr. **SALES ACCOUNT** Cr

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
				1972 Mar. 1	By Cash A/c		2,600
				4	,, Manickam A/c		4,000

Dr. **KUMAR ACCOUNT** Cr.

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
			Rs.				Rs.
1972 Mar. 6	To Cash A/c		2,000	1972 Mar. 3	By Purchases A/c		3,000

Dr. MANICKAM ACCOUNT Cr

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1972 Mar. 4	To Sales A/c		4,000	1972 Mar. 5	By Cash A/c		2,500

Dr. FURNITURE ACCOUNT Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1972 Mar. 7	To Cash A/c		300				

Steps in Posting

(1) From the Journal entry, one can know which TWO accounts are involved.

For e.g., Cash A/c	Dr.	1,000	
To Sales A/c			1,000

The Cash A/c and Sales A/c are the TWO accounts involved.

(2) These TWO accounts may be found on any TWO pages of the Ledger. If not, we should allot a page for each.

(3) In the account to be debited, the Debit side (i.e. the Left hand side) is to be filled in. In the account to be credited, the Credit side (i.e., the Right hand side) is to be filled in.

(4) On the debit side, begin with ' To ' and on the credit side begin with ' By '

(5) In the Journal Folio Column, the page number of the Journal from where the entry is transferred to Ledger account is written.

(6) In the Ledger Folio Column of the Journal, the page number of the ledger to which the entry is transferred is written.

Balancing the Ledger Accounts

In the above Illustration just look at Manickam A/c. The debit side shows Rs. 4,000, i.e., He is a debtor for Rs. 4,000. The credit side shows Rs. 2,500, i.e., He is a creditor for Rs. 2,500.

Suppose he comes to your shop and asks you how much he owes you, it is quite necessary to explain all his debits and credits.

You can do so, if he wants explanation. But what he wants to know is, the final amount he owes, in other words, his balance. So you have to tell him that his debit balance is Rs. 1,500. Therefore, the accounts have to be balanced.

When? At any time when the businessman wants to do so But usually balancing is done at the month end or at the end of a quarter. In small concerns it may be done at the end of the year.

How to Balance

(1) Total the amounts of debit and credit entries in an account. There are three possibilities :

(*a*) Both the debit and credit totals may be equal. In such cases, there is no need for Balancing. The account is said to be automatically balanced or automatically closed.

(*b*) The debit total may be greater than the credit total.

(*c*) The credit total may be greater than the debit total.

(2) When one side is greater than the other, find out the difference (or balance) and place the difference in the smaller side so that both the sides of the account may become equal.

(3) If you place the difference in the debit side, write against it as 'To Balance c/d'.

Similarly if you place the difference in the credit side, write against it as 'By Balance c/d'.

(4) Then the totals of both sides will be equal. Therefore, put the totals at the bottom on both sides.

(5) When you begin the account for the next period, the **closing balance** will appear as the **opening balance** in the opposite side as 'To Balance b/d' or 'By Balance b/d'.

(6) 'c/d' means 'carried down'; 'b/d' means 'brought down'.

Continuation of Account on another Page

When the page in the Ledger is fully written up, the account has to be continued in the next or some other page. This may happen at any time not necessarily at the end of a month or quarter or year. Therefore, the account is not balanced but it is totalled. The totals are transferred to the other page. The abbreviation '*c/fd*' and '*b/fd*' meaning 'carried forward' and 'brought forward' are used for this purpose.

Methods of Balancing

There are two methods :

(1) The total of the heavier side is taken first and it is written on both sides of the account. On the shorter side the balance is written above the total next to the last entry on that side. This method is more commonly used.

(2) In the next method the totals are written on both sides, one side showing smaller and the other side showing heavier amount. The difference is written on the shorter side below the smaller total. After doing so, grand totalling is made on both sides: Obviously they will be equal. This method is used only in certain concerns like the Electricity Companies.

The student has to follow the **first method** as it is more widely adopted.

ILLUSTRATION 3

Give only the Ledger accounts for the following transactions of Mr. Murugan during the month of March 1974 and balance the Ledger accounts.

				Rs.
March	1	Sold goods to Anand on credit for	..	1,000
	6	Sold goods to Balan on credit for	..	700
	7	Sold goods to Muthu for	..	4,300
	8	Commission received	..	50
	9	Anand returned goods worth	..	75
	12	Balan returned goods worth	..	50
	14	Muthu returned goods worth	..	100
	16	Bought goods on credit from Murali for	..	2,000
	19	Bought goods on credit from Mohan for	..	2,400
	20	Bought Stationery for	..	75
	21	Returned goods to Murali for	..	300
	22	Bought goods for cash for	..	600
	26	Collected from Balan cash	..	650
	31	Collected from Anand cash	..	925
	,,	Paid Salary Rs. 300, Wages Rs. 200, Electricity Charges Rs. 100.		

Solution

Let us assume that we have journalised the **above transactions**. Now we are going to post them to Ledger :

The accounts involved are :

(1) Sales a/c, (2) Anand a/c, (3) Balan a/c, (4) Cash a/c, (5) Muthu a/c, (6) Commission a/c, (7) Murali a/c, (8) Mohan a/c, (9) Purchases a/c, (10) Sales Returns a/c, (11) Purchase Returns a/c, (12) Salary a/c, (13) Wages a/c, (14) Electricity Charges a/c, (15) Stationery a/c.

MURUGAN'S LEDGER

Dr. SALES ACCOUNT **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 31	To Balance c/d		6,000	1974 Mar. 1	By Anand A/c		1,000
				6	,, Balan's A/c		700
				7	,, Muthu A/c		4,300
			6,000				6,000
				April 1	By Balance b/d		6,000

Dr. ANAND ACCOUNT Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 1	To Sales A/c		1,000	1974 Mar. 9	By Sales Returns A/c		75
				31	,, Cash A/c		975
			1,000				1,000

Note.—The above Account does not leave any balance as the totals on both sides are equal.

Dr. BALAN ACCOUNT Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 6	To Sales A/c		700	1974 Mar. 12	By Sales Returns A/c		50
				26	Cash A/c		650
			700				700

Note.—The above Account also does not leave any balance as the totals on both sides are equal.

Dr.

CASH ACCOUNT

Date	Particulars	J.F	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 8	To Commission A/c		50	1974 Mar 20	By Stationery A/c		75
26	,, Balan A/c		650	22	,, Purchases A/c		600
31	,, Anand A/c		925	31	,, Salary A/c		300
					,, Wages A/c		200
				,,	,, Electricity Charges A/c		100
				,,	,, Balance c/d		350
			1,625				1,625
Apr 1	To Balance b/d		350				

Dr. MUTHU ACCOUNT Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar 7	To Sales A/c		4,300	1974 Mar. 14	By Sales Returns A/c		100
				31	,, Balance c/d		4,200
			4,300				4,300
April 1	To Balance b/d		4,200				

Dr. COMMISSION ACCOUNT Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
			Rs.				Rs.
1974 Mar. 31	To Balance c/d		50	1974 Mar. 8	By Cash A/c		50
			50				50
				Apr. 1	By Balance b/d		50

Dr. **MURALI ACCOUNT** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F	Amount
			Rs.				Rs.
1974 Mar. 21	To Purchase Returns A/c		300	1974 Mar 16	By Purchases A/c		2,000
31	,, Balance c/d		1,700				
			2,000				2,000
				April 1	By Balance b/d		1,700

Dr. **MOHAN ACCOUNT** Cr.

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
			Rs.				Rs.
1974 Mar. 31	To Balance c/d		2,400	1974 Mar. 19	By Purchases A/c		2,400
			2,400				2,400
				April 1	By Balance b/d		2,400

Dr. **PURCHASES ACCOUNT** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar 16	To Murali A/c		2,000	1974 Mar. 31	By Balance c/d		5,000
19	,, Mohan A/c		2,400				
22	,, Cash A/c		600				
			5,000				5,000
Apr. 1	To Balance b/d		5,000				

Dr. **SALES RETURNS ACCOUNT** Cr

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs
1974 Mar. 9	To Anand A/c		75	1974 Mar. 31	By Balance c/d		225
12	,, Balan A/c		50				
14	,, Muthu A/c		100				
			225				225
Apr. 1	To Balance b/d		225				

Dr. PURCHASE RETURNS ACCOUNT **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 31	To Balance c/d		300	1974 Mar. 21	By Murali A/c		300
			300				300
				Apr. 1	By Balance b/d		300

Dr. SALARY ACCOUNT *Cr.*

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 31	To Cash A/c		300	1974 Mar. 31	By Balance c/d		300
			300				300
Apr. 1	To Balance b/d		300				

Dr. **Wages Account** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 21	To Cash A/c		200	1974 Mar. 31	By Balance c/d		200
			200				200
Apr. 1	To Balance b/d		200				

Dr. **Electricity Charges Account** Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			Rs.				Rs.
1974 Mar. 31	To Cash A/c		100	1974 Mar. 31	By Balance c/d		100
			100				100
Apr. 1	To Balance b/d		100				

Dr. STATIONERY ACCOUNT *Cr.*

Date	*Particulars*	*J.F.*	*Amount*	*Date*	*Particulars*	*J.F.*	*Amount*
1974			Rs.	1974			Rs.
Mar. 20	To Cash A/c		75	Mar. 31	By Balance c/d		75
			75				75
Apr. 1	To Balance b/d		75				

Let us now bring all the Balances b/d from each of the account to a Statement known as Trial Balance.

TRIAL BALANCE OF MURUGAN AS ON 31-3-1974

S. No.	*Name of Account*	*L. F.*	*Dr.*	*Cr.*
			Rs.	Rs.
	Sales A/c			6,000
	Cash A/c		350	
	Muthu A/c		4,200	
	Commission A/c			50
	Murali A/c			1,700
	Mohan A/c			2,400
	Purchases A/c		5,000	
	Sales Returns A/c		225	
	Purchases Returns A/c ..			300
	Salary A/c		300	
	Wages A/c		200	
	Electricity Charges A/c ..		100	
	Stationery A/c		75	
	Total		10,450	10,450

The total of the Debit Column is equal to the total of the Credit Column. In other words, the Trial Balance agrees, which in fact means, that the accounts are arithmetically accurate. The above Statement reveals another fact also. Certain accounts will show only debit balances and certain accounts will show only credit balances. A Table is given below for guidance.

NATURE OF ACCOUNTS

Classification of Accounts	*Type of Account*	*Will show only*	*Comments*
Personal Accounts	Proprietor's Capital A/c	Credit balance	
	Proprietor's Drawings A/c	Debit balance	
	Customers A/c	Debit balance	
	Suppliers A/c	Credit balance	
Real Accounts	Cash A/c	Debit balance	Unless automatically balanced. When the Cash A/c shows a nil balance, it means that the Cash Box is empty.
	Accounts of any property such as Building, Machinery, Furniture, etc.	Debit balance	It may be closed when the asset is disposed off.
	Sales A/c	Credit balance	
	Sales Returns A/c	Debit balance	
	Purchases A/c	Debit balance	
	Purchases Returns A/c	Credit balance	

Classification of Accounts	Type of Account	Will show only	Comments
Nominal Accounts	Account of any expenditure such as Salary, Rent, Wages, Advertisement Charges etc.	Debit balance	
	Account of any Income.	Credit balance	

QUESTIONS

OBJECTIVE TYPE

I. *State whether the following are 'True' or 'False'*

(*a*) Ledger is the Main or Principal Book of Account.

(*b*) Ledger has two sides known as Debit side and Credit side.

(*c*) Debit balance means Credit side is heavier than Debit side.

(Answer : *a*, *b*.—True. *c*.—False.)

II *Fill in the blanks with suitable words :*

(*a*) Crediting an account signifies recording the transaction on————side. (credit).

(*b*) c/d means———— and b/d means————.
(Carried down, Brought down)

(*c*) The abbreviations c/fd and b/fd mean————and ————
(Carried forward, Brought forward)

(*d*) The process of transferring entries from Journal to the Ledger is known as—— —(Posting).

III. ***Match the following :***

(1) Loose Leaf Ledger.	(1) All Accounts other than Debtors and Creditors.
(2) Creditors Ledger.	(2) Suppliers Ledger.
(3) Debtors Ledger.	(3) Sheets of thick paper fixed up with the help of a binder.
(4) General Ledger.	(4) Customers Ledger.

(**Answer :** 1-3; 2-2; 3-4; **4-1.**)

OTHER QUESTIONS

I. What is 'Ledger'? Explain the advantages of keeping a Ledger

II. What is an 'Account'? Give a proforma of a Ledger Account.

III. What do you understand by 'Balancing an Account'?

IV. Under what circumstances the abbreviations c/d and b/d are used?

V. What are the two methods of Balancing a Ledger Account?

VI. Explain clearly 'Debit' and 'Credit' balance of an Account.

What do they signify in the case of Personal and Nominal Accounts?

VII. Your friend makes the following statements. Correct them, if necessary.

(*a*) Purchases A/c, Purchases Returns A/c, Drawings A/c, Cash A/c—always show Debit Balances.

(*b*) Sales A/c, Sales Returns A/c, Customers' A/c, Capital A/c—always show Credit Balances.

(*c*) Suppliers accounts will not show any balance.

(d) Salary A/c, Rent A/c, Wages A/c—will automatically balance.

(e) Dividend A/c., Commission Earned A/c—will show Debit Balances.

(f) When our customers return the goods, which they have bought, we debit Goods A/c.

Prepare the necessary Ledger Accounts and bring down the balance for

VIII Q. No. 6 (Chapter IV)

IX. Q. „ 7 „

X. Q. „ 8 „

XI. Q „ 9 „

XII Q. „ 10 „

XIII. Journalise the following transactions, post them to Ledger and bring down the balances in the ledger Accounts:

1972

Jan. 1 Ramamurthy commenced business with Cash Rs. 25,000, Stock Rs. 10,000 and Furniture Rs. 1,000.

2 Bought goods for cash Rs. 5,000.

3 Sold goods for cash Rs. 3,000.

4 Bought goods from Peter on credit Rs. 2,000.

5 Sold goods to Robson on credit Rs. 4,000.

6 Paid Advertisement Charges Rs. 300.

7 Robson returned goods worth Rs. 400.

8 Defective goods worth Rs. 200 were returned to Peter.

9 Paid Peter Rs. 1,000.

10 Received from Robson Rs. 2,000.

11 Sold goods on credit to John for Rs. 600,
Khan for Rs. 700.
Pai & Co. for Rs. 5,000.

12 Bought goods on credit from
Mukundan & Co. for Rs. 2,000.
Malcolm & Bros. for Rs. 1,500.

15 Received Commission Rs. 75.

16 Purchased Office Equipment for Rs. 1,700 cash.

17 Purchased Stationery for Rs. 125.

18 Ramamurthy drew for personal use Rs. 200.

23 Paid Wages Rs. 300.

25 Sold goods to James on credit Rs. 2,700.

29 Paid Rent Rs. 200 and Salaries Rs. 500.

31 Sundry Expenses amounted to Rs. 175.

XIV. Journalise the following transactions and post them into proper Ledger Accounts:

1972

July 1 Thiruvengadam started business with the following Assets :
Cash at Bank Rs. 18,000;
Cash on hand Rs. 2,120;
Buildings Rs. 15,000.

2 Bought Furniture from Suresh & Bros. Rs. 250 (on credit).

3 Bought goods from Bharat Rs. 12,000 (on credit).

8 Returned to Bharat goods worth Rs. 80.

10 Paid for Advertisement Rs. 15.

13 Sold to Anand goods Rs. 10,000.

15 Paid for Carriage Rs. 15.

20 Received Goods returned by Anand Rs. 75.

21 Paid Commission Rs. 5.

22 Received a cheque from Anand Rs. 1,500 and banked it

24 Paid Bharat by cheque Rs. 3,000.

25 Withdrew from Bank for personal use Rs. 100.

28 Borrowed from David Rs. 5,000.

30 Paid the above sum into Bank

31 Paid Wages Rs. 75.
Bought Postage Stamps Rs. 3.
Additions made to the Building Rs. 2,500 and paid for the same by cheque.
Paid Suresh & Bros. by cheque Rs. 250.

XV. Journalise the following transactions and post them in the Ledger and Balance the Accounts :

1960
Feb. 1 M. Mohan started a business with Cash Rs. 2,000.
3 Bought Goods for Cash Rs. 1,000.
6 Sold to L. Lal Goods for Rs. 700.
7 Bought from M. Ali Goods for Rs. 500.
8 Sold Goods for Cash Rs. 400.
9 Paid into Bank Rs. 800.
12 Received from L. Lal Cash Rs. 675.
15 Paid M. Ali Cash Rs. 300.
20 Paid for Stationery Rs. 20.
25 Bought Furniture for office for cash Rs. 175.
27 Paid for Postage Rs. 2.
29 Paid General Expenses Rs. 5;
Salary Rs. 250;
Rent Rs. 75.

CHAPTER VI

TRIAL BALANCE

The main object of keeping Accouts is to ascertain the profit or loss of a business and to assess the financial position of the business at the end of the year. This object is better served if the businessman first satisfies himself that the Accounts written up during the year are correct or at least arithmetically accurate.

In other words before we proceed to calculate profit or loss of the business, a check up should be done as to whether the Accounts have been properly recorded. The Double Entry System, offers a very great advantage in this respect.

When the transactions are recorded under Double Entry System there is a credit for every debit. When one a/c is debited, another a/c is credited with equal amount. Therefore, it is quite evident that

The grand total of the totals of debit sides of all accounts must be equal to the grand total of the totals of credit sides of all accounts.

In other words the total of debit balances is equal to the total of the credit balances.

If a Statement is prepared with Debit balances on one side and Credit balances on the other side, the totals of the two sides will be equal. Such a statement is called **Trial Balance**.

Definition

'Trial Balance' can be defined as 'a list of all balances standing on the Ledger Accounts and Cash Book of a concern at any given time'.

Features

The following are its main features :

(*a*) It is a Tabular Statement having separate columns for Debit balances and Credit balances.

(*b*) Closing balances in each Account are brought to the Statement.

(c) It can be prepared at any date on which Accounts are balanced. But it is usually prepared at the end of the Accounting Year.

(d) Trial Balance is not an Account. It is only a Statement.

Advantages (or Functions) of a Trial Balance

(1) It presents to the businessman a consolidated list of all Ledger Balances.

(2) It is the shortest method of verifying the arithmetical accuracy of entries made in the Ledger.

(3) If the total of debit column is equal to the total of the credit column, the trial balance is said to agree. Such an agreement proves that the Accounts are arithmetically correct.

(4) It helps in the preparing of Trading A/c, Profit & Loss A/c and Balance Sheet.

Preparation of a Trial Balance

There are two methods for preparing the Trial Balance.

(i) A loose sheet of paper is ruled as given below :

S. No.	*Name of A/c*	*L.F.*	*Debit Total of A/c*	*Credit Total of A/c*
			Rs. P.	*Rs. P.*

In this method, Ledger Accounts are not balanced. They are totalled. These totals are entered in the above columns. The grand total of Debit column will be equal to the grand total of the Credit column.

(2) The next method is more widely used. The Ledger accounts are balanced. The brought down balances are then brought to a sheet ruled as given below :

RAM'S BOOKS

Trial Balance as on .... 19....

S. No.	Name of Account	L.F.	Debit Balance		Credit Balance	
			Rs.	P.	Rs.	P.

Why the Second method (Balance Method) is preferred?

(*a*) It necessitates the Balancing of each Account before hand. Therefore, errors may come to light.

(*b*) The nature of Ledger Balances will give a rough idea of the results of Trading.

(*c*) The trial balance will not be unwieldy as only the Balances are taken and not the Totals

(*d*) Only the balances of Accounts are required to prepare the Financial Accounts and the Balance Sheet. In the first method, Final Accounts can be prepared only after finding out them. But the second method provides the balances required as such for preparing the Final Accounts.

Sundry Debtors

When a trader sells on credit basis, the Buyer's Account in the Ledger is debited. For each Buyer, there is one Ledger a/c. There may be a large number of persons who purchase goods on credit basis. For each one of them, a separate Account is opened in the Ledger. Some of these Accounts may be auto-

matically balanced But it is quite natural that many of these Customers' Accounts have a debit balance.

When we bring these balances to the Trial Balance, if we are going to write all the individual names of customers, then the Trial balance will be unduly lengthy. Therefore, first we prepare a List of Debtors with their individual Debit balances. We calculate the total of the Debit balances. In the ledger we write ' SUNDRY DEBTORS ' and put against it the total amont due from the Debtors.

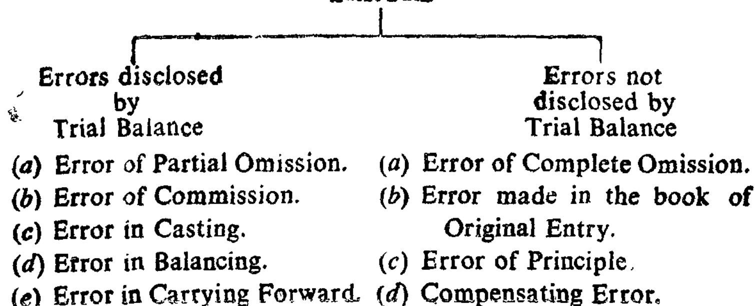
Sundry Creditors

There are a number of parties from whom the Trader buys goods on credit basis For each one of them, an Account is opened in the ledger As we have done in the case of Debtors a List of Creditors with the balances due to them is prepared. In the Trial Balance, instead of writing the individual names of Creditors, we write ' SUNDRY CREDITORS ' and put the total of the balances of the creditors.

The idea is not to make the Trial Balance unduly lengthy with scores of names of persons and firms

ERRORS

The object of preparing a Trial Balance is to test whether all transactions have been properly recorded. If the Trial Balance agrees, it is an indication that the Accounts are correctly written up, but it is not a conclusive proof. The agreement of Trial Balance establishes only arithmetical accuracy. There are still many errors which will not be disclosed by a Trial Balance. Therefore, we can say that errors are of two types.



Errors Disclosed

(1) *Error of Partial Omission* When there is a mistake in posting to a Ledger a/c from the Subsidiary Book, we may call it a **partial omission**. For *e.g.*, from Purchases Book, corresponding credits to all or some of the Suppliers would not have been made by oversight. While the Purchases a/c would be debited with say Rs. 5,000, the Suppliers Accounts would have been credited with say, Rs 4,000. There will be an excess debit in the Trial Balance.

(2) *Error of Commission* The term 'Commission indicates, that something is done which should not have been done. Such mistakes arise in the following ways

(*a*) Posting of correct amount but to a wrong side of the Proper a/c. For *e.g.* instead of debiting a customer who has bought on credit, his a/c might have been credited.

(*b*) Posting of wrong amount to the correct side of proper a/c: In the above example the customer who has purchased will be debited but with a wrong amount For *e.g.* instead of Rs 100, he may be debited with Rs. 1,000

(*c*) Posting to the correct side of the proper a/c but twice In the above example, the customer may be debited twice.

(3) *Error in Casting i.e. Totalling* Such mistakes may occur in the Subsidiary Books. While totalling the Purchases Book or Sales Book, higher amount may be put. For *e.g.*, instead of Rs. 1,200 it may be wrongly totalled as Rs. 1,300. This is called **overcasting**. If the amount is wrongly totalled as Rs. 1,100, it is called **under casting.** Such mistakes will get transferred to Ledger and ultimately to the Trial Balance

(4) *Error in Balancing*: Sometimes, errors occur in Balancing ledger a/c. Instead of putting the balance in the shorter side, by oversight, the amount might be placed in the opposite side.

(5) *Error in carrying or bringing forward:* It is quite possible to go wrong in carrying forward the balance from one page to another, especially in bigger concerns where Accounts are spread over a number of pages.

Errors not Disclosed (or Limitations of Trial a Balance)

There are certain types of errors which do not affect the Double Entry mechanism. As long as, there is a debit and a corresponding credit for equal amount and as long as one a/c is debited (rightly or wrongly) and another a/c is credited (rightly or wrongly) the Trial Balance will agree. Therefore, one should not conclude that the agreement of a Trial Balance is a proof that accounts are completely free from errors

The following errors will remain concealed in the Accounts in spite of the agreement of Trial Balance :

(1) *Errors of Complete Omission* When a transaction is completely omitted to be recorded in the Book of Original Entry (Journal or Subsidiary Books), it will not affect Trial Balance. For *e.g.*, a credit sale to Mr. Kumar for Rs 300 is not at all recorded. This will come to light only when Kumar sends a cheque in payment of his dues

(2) *Error in the Book of Original Entry* In the Journal or Subsidiary Books wrong entries may be made due to negligence; for *e g*,

(*a*) A credit sale to Sundar for Rs. 500 may be entered in the Purchases Book , or

(*b*) It may be entered in the Sales Book itself but with Rs. 50. or

(*c*) It may be entered in the Sales Book itself, but the name may be wrongly written as Sundaram.

Such clerical mistakes may occur not only in Journal or Subsidiary Books but in ledger also.

(3) *Errors of Principle* This kind of errors happen in the event of not knowing the accounting rules properly or not knowing the difference between the Capital Expenditure and Revenue Expenditure When Rs. 25 is spent to repair the Building, it will become an Error of Principle if the Building Account is debited instead of the Repairs Account.

Though the accounts to be debited and credited differ, the Trial Balance agrees as there is a debit in one account and a credit for the same amount in another account If does not reveal such kinds of errors.

(4) *Compensating Errors* · Sometimes two errors may occur and one will counter balance the other When Sales A/c is undercast by Rs. 1,000, the Purchase A/c may also be undercast by the same amount They cancel each other

LOCATING THE ERROR

When the Trial Balance disagrees, there is an indication that there are some errors—may be one or more. Therefore, we must know how to locate such errors

The following are the guidelines

(1) The totals of the Trial Balance should be checked again and the difference between the Totals should be ascertained

(2) It should be seen whethere there is any A/c having half of the amount of the difference and whether it is entered in the correct side.

(3) If the difference is an even number and is divisible by 9, the errors might have occurred in transposing the figures *e g.*, an A/c would have been debited with 57 instead 75

(4) The list of Sundry Debtors and Sundry Creditors should be totalled to find out discrepancy, if any

(5) It should be examined whether Bank Balances are brought to the Trial Balance

If we are not able to locate the error by the above checks, then a thorough scrutiny of the Ledger Accounts regarding castings, balancing, and carrying forward should be undertaken

Then postings from Journal and Subsidiary Books should be verified.

This is, of course, a time-consuming process, and therefore to be undertaken leisurely. Till then the difference is placed to an Account called Suspense Account about which we shall see later.

ILLUSTRATION

The following are the Balances extracted from the Books of Mohamed as on 31st December, 1969. Prepare a Trial Balance.

	Rs.
Capital	20,000
Cash in hand	5,000
Buildings	20,000
Stock on 1-1-1969	3,000
Sundry Creditors	6,000
Commission Paid	700
Rent and Rates	300
Purchases	60,000
Purchase Returns	750
Furniture & Fixture	1,600
Loan to Ram	1,000
Discount Allowed	50
Bad Debts	350
Drawings	5,000
Cash at Bank	8,000
Machinery	6,000
Sundry Debtors	8,000
Repairs	400
Wages	1,700
Insurance Premium	300
Sales	96,000
Sales Returns	400
Carriage	200
Telephone Charges	250
Salaries	600
Discount Earned	100

MOHAMED'S BOOKS

Trial Balance as on 31st December, 1969

S. No.	Name of Account	L. F.	Debit balance	Credit balance
			Rs.	Rs.
1	Mohamed's Capital ..			20,000
2	Cash in hand ..		5,000	
3	Buildings ..		20,000	
4	Stock on 1-1-1969 ..		3,000	
5	Sundry Creditors ..			6,000
6	Commission Paid ..		700	
7	Rent & Rates ..		300	
8	Purchases ..		60,000	
9	Purchases Returns ..			750
10	Drawings ..		5,000	
11	Cash at Bank ..		8,000	
12	Machinery ..		6,000	
13	Sundry Debtors ..		8,000	
14	Repairs ..		400	
15	Wages ..		1,700	
16	Insurance Premium ..		300	
17	Sales ..			96,000
18	Sales Returns ..		400	
19	Furniture & Fixtures ..		1,600	
20	Loan to Ram ..		1,000	
21	Discount Allowed ..		50	
22	Bad Debts ..		350	
23	Carriage ..		200	
24	Telephone Charges ..		250	
25	Salaries ..		600	
26	Discount Earned ..			100
	Total ..		1,22,850	1,22,850

QUESTIONS

OBJECTIVE TYPE

1. *Point out the Statement which correctly completes the sentence:*

(*a*) The Trial Balance checks .

(1) the arithmetical accuracy of Accounts

(2) the honesty of the Book-Keeper.

(3) the valuation of the Closing Stock.

(*b*) **Compensating errors affect the agreement of:**

(1) the totals of Assets and Liabilities of the Balance Sheet.

(2) the totals of debit and credit columns of the Trial Balance.

(3) neither (1) nor (2) given above.

[**Answer:** *a*: (1) *b*: (3).]

II. ***Following are some statements about Trial Balance. State which of them are correct:***

(1) It is used for the preparation of Final Accounts.

(2) It is prepared after preparing Ledger Accounts.

(3) It shows the profit earned by the Firm during a period.

(4) It has two columns, debit and credit.

(5) It has no importance from the point of view of law.

(6) It checks the accuracy of posting the Ledger Accounts.

(**Answer:** 1, 2, 4, 5 and 6 are correct).

III. ***Fill in the blanks:***

(1) Posting of correct amount but to a wrong side of proper Account is known as Error of ——— (Commission).

(2) When a transaction is completely omitted to be recorded in the Books of Original Entry, it is known as Error of ——— (Complete Omission).

(3) The Trial Balance is prepared from Brought Down Balances of ——— (Ledger).

(4) Difference in Trial Balance is placed in the Account called ——— (Suspense Account).

OTHER QUESTIONS

I. What is a Trial Balance?

II. What is the object of preparing a Trial Balance?

III. What are the errors disclosed and not disclosed by the Trial Balance?

IV. Explain with examples
(*a*) Error of Principle.
(*b*) Compensating Error.
(*c*) Error of Commission.

V. What is the difference between (*a*) Error of Complete Omission and (*b*) Error of Omission in posting to ledger from Subsidiary Books?

VI. What is a Trial Balance? What are its uses? Mention the kinds of errors (*a*) disclosed by a Trial Balance and (*b*) not disclosed by a Trial Balance

VII. What are the mistakes that the Trial Balance shows and what mistakes it does not show?

VIII. Define 'Trial Balance' 'The mere agreement of a Trial Balance does not mean that everything is all right with Accounts'. Discuss

IX. Enumerate the various kinds of Errors committed in writing up a set of books.

X. Does a Trial Balance reveal all the mistakes that a Book-keeper commits?

XI. State which are debit balance accounts and credit balance accounts from the following:
(*a*) Capital,
(*b*) Drawings,
(*c*) Loan to *X*,
(*d*) Bill Receivable,
(*e*) Returns Inwards,
(*f*) Carriage Inwards.
(*g*) Returns Outwards,
(*h*) Carriage Outwards,
(*i*) Freight Inwards,
(*j*) Freight Outwards,
(*k*) Discount Earned,
(*l*) Discount Allowed,
(*m*) Bad Debts

XII. From the following Balances extracted from the books of Pandian, prepare a Trial Balance as on December 31, 1971 :

	Rs.			Rs.
Capital	10,000	Loan from *Y*	..	7,000
Plant and Machinery	4,000	Returns Outwards	..	500
Sundry Debtors	4,000	Rent	..	400
Sundry Creditors	1,200	Sales	..	16,400
Drawings	1,200	Manufacturing Expenses		800
Purchases	10,500	Trade Expenses	..	700
Wages	5,000	Bad Debts	..	200
Bank	1,000	Carriage	..	150
Repairs	50	Bills Payable	..	700
Stock 1-1-1971	2,000	Motor Car	..	7,000
Discount (Cr.)	1,600	Returns Inwards	..	400

(**Answer** : Total of the Trial Balance .. Rs. 37,400)

XIII. From the following Balances extracted from the books of Sundaram, construct a Trial Balance as on 31st December 1971 :

		Rs.			Rs.
Bills Payable	..	700	Salaries	..	570
Land and Buildings	..	4,000	Rent and Taxes	..	200
Stock, 1st January	..	4,000	General Expenses	..	500
Capital	..	15,000	Interest on Capital	..	800
Plant and Machinery	..	6,600	Furniture and Fixtures		300
Bills Receivable	..	1,500	Cash at Bank	..	230
Purchases	..	13,000	Discounts (Dr.)	..	500
Sales	..	22,000	Creditors	..	6,000
Wages	..	3,500	Debtors	..	8,000

(Total Rs. 43,700)

XIV. From the following Balances extracted from the books of Elango & Bros., prepare a Trial Balance as on 31st Dec. 1972 :

		Rs.			Rs.
Capital	..	6,000	Boxes, Labels, etc.	..	500
Withdrawals (Drawings)		1,000	Rates & Taxes	..	40
Sales	..	10,000	Insurance	..	150
Loan on Mortgage (Cr.)		1,000	Carriage	..	10
Machinery and Plant	..	1,500	Incidental Expenses	..	200
Land and Buildings	..	2,000	Stock, 1st Jan. 1972	..	2,000
Creditors	..	500	Cash at Bank	..	1,250
Wages		5,000	Cash in hand	..	500
Debtors	.	3,500	Commission Earned	..	450
Bills Receivable	..	300			

(Total Rs. 17,950)

XV. From the following Balances extracted from the Books of Mahimaidoss, prepare a Trial Balance as on 31st March, 1972:

	Rs.		Rs.
Capital ..	24,500	Loan (Cr.) ..	7,880
Drawings ..	2,000	Sales ..	65,360
General Expenses ..	3,500	Purchases ..	47,000
Buildings ..	11,000	Motor Car ..	2,000
Machinery ..	9,340	Reserve Fund ..	900
Stock ..	16,200	Commission (Cr.) ..	2,320
Power ..	2,240	Car Expenses ..	1,800
Taxes and Insurance	1,315	Bills Payable ..	3,800
Wages ..	7,200	Cash ..	80
Debtors ..	7,280	Bank Overdraft ..	4,300
Bad Debts ..	550	Charity ..	105
Creditors ..	2,500		

(Total Rs. 1,11,610)

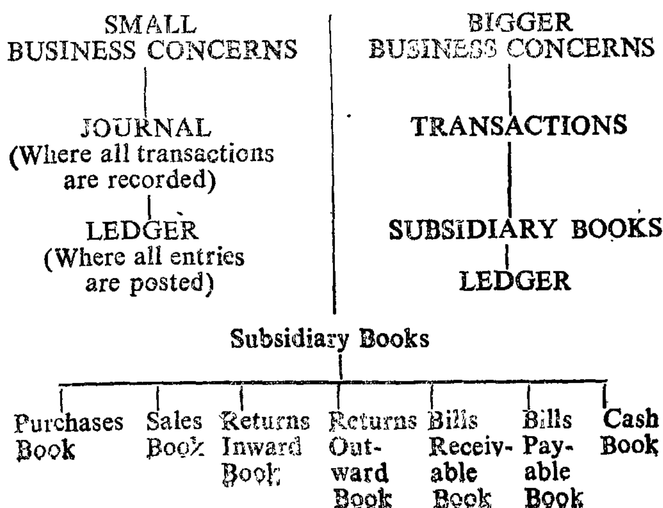
CHAPTER VII

SUBSIDIARY BOOKS

INTRODUCTION

We have already seen that how the business transactions are recorded in the Journal. When a business is of a smaller size and when the transactions are not too many, it is possible and also desirable to record all the transactions in one and the same book viz. Journal. So 'One Journal and one Ledger' arrangement is suitable to a smaller business concern.

But when the firm is a bigger one, the transactions would be numerous. Different persons will be simultaneously doing different transactions. Therefore it is more convenient and advantageous to record the transactions in different books and to post all of them in the ledger. In other words, instead of recording the transactions in the Journal, we record them in the prescribed account books which are known as Sub-divisions of the Journals or **Subsidiary Journals** or **Subsidiary Books.** The original Journal or Journal Proper can be used occasionally just to record any transaction for which there is no prescribed Subsidiary Journal.



The use of Subsidiary Journals or **Subsidiary Books** reduces the pressure on the Journal; because as and when transactions occur, they are recorded in the appropriate Subsidiary Book only. Therefore the Subsidiary Books also are **Books of Original Entry or Prime Entry.**

Subsidiary Books:

Purchases Books

To record all credit Purchase of Goods only (because Cash Purchases will be recorded in the Cash Book).

Sales Book

To record all credit Sales of Goods only (as Cash Sales will be recorded in the Cash Book).

Purchases Returns Book

To record the goods returned by us to the suppliers from whom we have purchased earlier.

Sales Returns Book

To record all the goods returned by our customers.

Cash Book

To record all the incomings and outgoings of cash.

(*a*) Cash will come in when we make Cash Sales or when we receive certain Incomes or when we borrow.

(*b*) Cash will go out when we make Cash Purchases or when we pay our Expenses or when we lend.

Bills Receivable Book

To record the Bills of Exchange drawn by us, Promissory Notes or Hundis received from various parties.

Bills Payable Book

To record the Bills of Exchange accepted by us, Promissory Notes or Hundis payable by us to various parties.

Journal Proper

Since the work of the Journal is now very much reduced, it is going to be used only rarely. Therefore, a small Journal known as Journal Proper, is kept.

Advantages of Subsidiary Books

(1) *Division of Work :* Instead of one Journal, there are now eight books. It would be possible to allocate the work to different clerks who can simultaneously record the transactions.

(2) *Efficiency :* Due to such allocation, each clerk will specialise in the work allotted to him and naturally he will become efficient in that part of the accounting work.

(3) *Time Saving :* Transactions of different nature will be recorded simultaneously. Therefore recording work can be done quickly.

(4) *Readymade Information :* When we want to get information on any aspect of the business, we can get it quickly as the transactions relating to different aspects are recorded in the appropriate books.

(5) *Easy Checking :* Checking the transactions for mistakes and errors can be easily done. Let us see each of the Subsidiary Books in detail.

(6) *Work of Posting halved :* When we enter all the transactions in the Journal and then post in the Ledgers, the work is very much increased. When we use Subsidiary Books, instead of Journal, the posting work is reduced more or less to half. Because, only the total amounts of the Sales Book, Purchases Book etc., are posted in the ledger. Similarly, when we write up the Cash Book, Cash Account and Bank Account are prepared. Besides, the narrations to be given in the Journal are also avoided.

Purchases Book

This book is designed to record all CREDIT purchases of goods which the businessmen want to sell. (If any Asset like Machinery, Furniture etc., is purchased on credit basis, it will be entered in the Journal Proper, because it is not meant for resale. It is going to be used in the business.)

This book is also called as **Bought Day Book, Purchase Journal, or Invoice Book. Each page of this book is ruled as** given below:

Date	*Particulars*	*Inward Invoice No.*	*L.F.*	*Amount*
				Rs.

Columns in the Purchases Book

Date Column : The date of the transaction will be written here.

Particulars Column : The supplier's name will be recorded.

Inward Invoice No. : The supplier will send his Invoice. Usually he will give a number to his Invoice. If not, the buyer can give a number.

Ledger Folio : That is done finally when the transaction gets posted in the Account of the supplier in the Ledger. That page number will be entered here in this column. (Of course this can be only after posting is over.) Till then, the column will be left blank.

Amount : The Net amount of the Purchase as found in the Invoice will be shown here.

TRADE DISCOUNT

When a customer buys goods regularly or buys in large quantity or buys for a large amount, the seller is usually inclined to allow a concession in price. He will calculate the total price according to the list or catalogue. But after the total is arrived at, he will make a deduction of 5% or 7½% or 10% depending

upon his business policy. This deduction is known as **Trade Discount**. It will be shown in the Invoice. Wholesalers usually give a higher percentage of Trade Discount to retailers to enable the latter to sell at the catalogue price.

INVOICE

This is a document prepared by sellers and given to buyers. Every time a sale is made, Invoice should be prepared. Business concerns generally prepare invoices in triplicate. One copy will be issued to the buyer. The other two copies will be retained by the seller.

The Invoice should give the following details :

(*a*) Name and address of the Seller. (This will be usually printed.)

(*b*) Name and address of the Buyer.

(*c*) The Date.

(*d*) Quantity, Description, Price of the goods sold etc.

(*e*) Trade Discount and the Net Amount.

At the left bottom corner of the invoice, you may find the abbreviation--E. & O.E. This means ' Errors and Ommissions Excepted '. This indicates that *if* errors and omissions are found out, the matter can be reported and settled and the Seller undertakes to correct them.

SPECIMEN INVOICE

INVOICE

RAVINDRA BOOK HOUSE
(Publishers and Book Sellers)

Invoice No. : 432
Telegram : 'KAPALI'
Telephone : 74849
Order No. : X/127

9, South Mada Street,
Madras-600 004,
15th November, 1977.

Messrs. JAYACHANDRA & Co.,
48, Tank Street
Tiruchirappally.

TERMS : 1½% Cash discount within a month

Quantity	Description	Rate	Amount	
		Rs. P.	Rs. P.	Rs. P.
10	'Hand book of Commerce' by Prof. M. Jambunathan	10 —	100 —	
12	Popular English Tamil Dictionary by M. M. Gopal ..	15 —	180 —	
15	'Principles of Business Organisation' by M. C. Shukla ..	20 —	300 —	
			580 —	
	Less : Trade Discount .	20%	116 —	
				464 —
	Add : Expenses:			
	Packing .		10 —	
	Carriage ..		7 —	
	Railway Freight ..		19 —	
				36 —
	Amount payable .. (Rupees Five hundred only)			500 —

E & O.E.

for RAVINDRA BOOK HOUSE,

....

Proprietor

CASH DISCOUNT

We have seen that Trade Discount is deducted in the Invoice itself. Therefore the net amount only is entered in the Account Books. In the above example, M/s JAYACHANDRA & CO. will be debited with Rs. 500 only.

Certain business men offer another incentive to their customers who are paying their dues within a period of 15 days or a month or within the Discount Period allowed. This is known as **Cash Discount**. This is an allowance made at the time of payment.

In the above example if M/s JAYACHANDRA & CO., pay their dues within a stipulated time i.e., one month, they may be allowed 1½% discount. They will be actually paying Rs. 500 – Rs. 7.50 = Rs. 492.50. The seller will pass the Journal entry as given below :

Cash A/c	Dr.	492 50	
Discount A/c	Dr.	7 50	
To JAYACHANDRA & Co.,			500 —

Thus Trade Discount and Cash Discount are quite different facilities, serving different purposes

DISTINCTION BETWEEN TRADE DISCOUNT AND CASH DISCOUNT

Trade Discount	*Cash Discount*
(*a*) It is allowed at the time of purchase.	(*a*) It is allowed at the time of payment, if payment is made before a certain date.
(*b*) It is shown as a deduction in the Invoice.	(*b*) It has nothing to do with Invoice.
(*c*) Entry is not made in the Account Book.	(*c*) Entry is made in theAccount Book. Separate Ledger Accounts are opened for 'Discount received' and for 'Discount allowed'
(*d*) The object is to enable the buyer (who may be a retailer) to sell at the catalogue price.	(*d*) The object is to induce the debtors to pay their dues promptly.
(*e*) It is allowed or not allowed according to Sales Policy followed by a business concern.	(*e*) It is allowed only on a condition. The dues should be paid within the stipulated time. If not the debtor is not eligible for Cash Discount.

Illustration

M/s Agniraj & Co., Stationers bought the following goods. Show how the entries will be made in their Purchases Book:

1977

January 9 Purchased from Ram & Co., as per Invoice No. 342:
15 Dozen Pencils @ Rs. 6 per Dozen,
8 Dozen Ledgers @Rs. 24 per Dozen, less 10%T.D.

15 Purchased for Cash: 10 gross Exercise Books @Rs. 3 per Dozen.

18 Purchased Almirah for office use from Steel Age Company, Madras. Invoice No. 91, for Rs. 1,900.

21 Bought from Modern Paper Stores as per Invoice No. 72:

25 Reams of White Paper @ Rs. 10 per Ream.

40 Reams of Ruled Colour Paper @ Rs. 15 per Ream. Less 12% T.D.

SOLUTION

PURCHASES BOOK

Date	*Particulars*	*Inward Invoice No.*	*L.F.*	*Amount*
				Rs. P.
1977 Jan. 9	*Ram & Co.,* ..			253 80
21	*Modern Paper Stores* ..			748 —
31	Purchases A/c *Dr.* Total ..			1,001 80

Note :—1. Cash Purchases and purchase of any Asset cannot be entered in the Purchase Book.

2. L.F. Column can be filled in, when the entry is posted in the Ledger.

3. We should not enter the number in the Invoice. We should enter only the Serial Number of the Invoice given by us.

MULTI-COLUMN PURCHASES BOOK

If a Firm dealing in three or four articles wishes to know at a glance the total Purchases of these three or four individual articles, it is possible to introduce appropriate columns, in the Purchase Book. Then it is called 'Multi-Column Purchase Book'.

Suppose a cloth merchant is buying Cotton, Woollen, and Silk, he can, if he wants, maintain a Purchase Book as given below :

COLUMNAR PURCHASES BOOK

Date	Particulars	Inward Invoice No.	L.F.	Amount	Cloth		
					Cotton	Woollen	Silk
				Rs.	Rs.	Rs.	Rs.

POSTINGS FROM THE PURCHASES BOOK

We have to credit each Debtor's account separately for their amounts in the ledger from the Journal. Then (at the end of each month) the total amount of the Purchases Book has to be debited in the Purchases Account in the Ledger.

The method of postings from the Purchases Book given in the example is illustrated below :

Dr RAM & CO. ACCOUNT *Cr.*

			Rs.	P.
	1977			
	Jan. 9	By Purchases A/c	253	80

Dr. MODERN PAPER STORES *Cr.*

			Rs.	P.
	1977			
	Jan. 21	By Purchases A/c	748	—

Dr. PURCHASES ACCOUNT *Cr.*

		Rs.	P
1977			
Jan. 31	To Sundries	1001	80

SALES BOOK

This book is used to record credit sales of goods. Sale of Assets and Cash Sales of goods cannot be recorded in this book. The former will be recorded in the Journal Proper and the latter will be recorded in the Cash Book.

The ruling is the same as for Purchases Book.

SALES BOOK

Date	*Particulars*	*Ontward Invoice No.*	*L.F.*	*Amount*
				Rs. P.

Recording is done in the same manner as in the Purchases Book.

Illustration

The following are the transactions of M/s Kumar & Bros., Cloth & Garments Merchants. Make out their Sales Book.

1977

November 7 Sold to M/s Sankaran & Co., on Credit
100 metres of 'Gada' @ Rs. 4.
200 metres of 'Jay' Shirting @ Rs. 9.
Less: 10% T.D.—*Invoice* No. 697.

9 Sold old Furniture to Gupta & Sons Rs. 1,200 on credit.

November 16 *Cash Sales* :
60 Slack shirts @ Rs. 12
40 Pants @ Rs. 20
——— *Invoice* No. : 698.

24 Sold to M/s Kannan & Kumaran on Credit.
45 Full shirts @ Rs. 15.
70 Half Pants @ Rs. 8.
Less: T.D. 10%— *Invoice* No. 699.
Packing Charges etc. Rs. 30.

SOLUTION

SALES BOOK

Date	*Particulars*	*Outward Invoice No.*	*Details*	*Amount*
			Rs. P.	Rs. P.
1977 Nov. 7	Sankaran & Co., ..	697		1,980 00
24	Kannan & Kumaran ..	699		1,141 50
Nov. 30	Sales A/c Cr. Total ..			3,121 50

Note :—Cash Sales will be recorded in the Cash book.
Sale of old Furniture will be journalised in the Journal Proper.
Both these transactions should not be recorded in the Sales Book

MULTI-COLUMN SALES BOOK

Just as we can design a Multi-Column Purchases Book, we can also have a Multi-Column Sales Book. If the seller wants to have an analysis of his Sales, and if he sells three or four types of articles he can give a Columnar Sales Book.

A specimen is given below :

COLUMNAR SALES BOOK

Date	Particulars	Outward Invoice No.	L.F.	Amount		
				Shirt	Pant	Cloth
				Rs.	Rs.	Rs.

Postings from the Sales Book

From the Sales Book, each account of our customers (those who buy goods from us) is debited separately. Then the monthly total of the Sales Book is credited in the Sales Account.

Dr. SANKARAN & CO., *Cr.*

		Rs.	P.
1977			
Nov. 7	To Sales A/c	1,980	00

Dr. KANNAN & KUMARAN *Cr.*

		Rs.	P.
1977			
Nov. 24	To Sales A/c	1,141	50

Dr. SALES ACCOUNT *Cr.*

		Rs.	P.
1977			
Nov. 30	By Sundries	3,121	50

RETURNS DAY BOOK

(Purchase Returns Book & Sales Returns Book)

Sometimes it so happens that the goods bought are not satisfactory to us. Similarly the goods sold by us may not be

satisfactory to our customers. The reasons for dissatisfaction in both the cases may be any one of the following:

(*a*) They are not according to the samples sent

(*b*) They are received in a damaged condition

(*c*) They are not priced according to quotations

(*d*) They are delivered after a long, unpardonable delay

(*e*) Their quality is so poor that they cannot be used for the intended purpose.

When a trader, Mr. X, returns the goods to his suppliers he calls it as Purchase Returns or Returns Outwards or Returns to Suppliers.

Similarly when his customers return the goods to Mr. X, he calls it as Sales Returns or Returns Inwards or Returns from Customers.

PURCHASE RETURNS BOOK (RETURNS OUTWARDS BOOK)

When the trader returns the goods to the suppliers, he can record the transactions in this book. The goods thus returned might have been purchased earlier either for cash or on credit. Returning the goods can only be a credit transaction. Cash transaction is impractical. Therefore, whether the goods have been purchased either for cash or for credit earlier, now, when they are returned, the Supplier will take some time to settle the account. Therefore it is to be considered as a credit transaction and recorded in the Purchases Returns Book.

There is one precaution. When the goods are returned to the suppliers, a Debit Note is prepared and sent along with the goods. Due care should be taken to make the necessary adjustments for Trade Discount originally allowed.

DEBIT NOTE

It is a statement prepared in duplicate by the Trader who returns the goods to the Suppliers. It gives the address of Supplier, the description of the goods, quantity returned and also its value.

SPECIMEN OF A DEBIT NOTE

DEBIT NOTE

Telegram : 'Empo'
Telephone : 73225

No. 6
14, Mount Road,
Madras-600 002,
10 November, 1977.

NOVEL HANDICRAFTS EMPORIUM,
MADRAS.

To
The Wooden Carvings Mart,
10, Palace Road,
Mysore.

We are debiting your account with the value of undermentioned materials returned to you for the reasons stated below. Meanwhile, we await your instructions.

Description	*Specification*	*Quantity*	*Price*	*Details*	*Amount*
			Rs. P.	Rs. P.	Rs. P.
Wooden Toy Elephant	9″ height	30	15	450 —	
	Less : Trade Discount 20%			90 —	360 —

Rupees Three hundred and Sixty only

Reasons : They are badly damaged due to defective packing.

REF : Your Invoice No. 666/dated 4-10-77.

For Novel Handicrafts Emporium.

x x x
Signature

E. & O.E.

A specimen of the Debit Note given above clearly indicates that the Firm, NOVEL HANDICRAFTS EMPORIUM of Madras, is returning the damaged Wooden Toys to the suppliers--Wooden Carving Mart of Mysore claiming a refund of Rs. 360. A copy of each such Debit Note is retained by the Firm and from the details, the Purchase Returns Book is written up.

Illustration

Novel Handicrafts Emporium, Madras is returning the following goods. Make the record in the Purchase Returns Book.

1977

Nov. 10 Returned 30 Wooden Toy Elephants @ Rs. 15 subject to 20% Trade Discount. to Wooden Carvings Mart, Mysore. (D.N. No. 6)

Nov. 22 Returned 40 Dolls @ Rs. 12 subject to 10% Trade Discount to Bharathi Art Works, Madurai. (D N. No. 7)

Nov. 29 Returned 10 Thanjavur Plates @ Rs. 80 subject to 20% Trade Discount to Modern Culture Palace, Thanjavur. (D.N. No. 8)

SOLUTION

PURCHASE RETURNS BOOK

Date	*Particulars*	*L.F.*	*D. N No.*	*Amount*
				Rs. P.
1977 Nov. 10	Wooden Carvings Mart, Mysore ..		6	360 —
22	Bharathi Art Works, Madurai ..		7	432 —
29	Modern Culture Palace, Thanjavur ..		8	640 —
Nov. 30	Purchase Returns A/c *Cr.* Total ..			1,432 —

Note :—(1) D. N. No. is the abbreriation of Debit Note No.

(2) There is no need to write details when the Debit Note numbers are given. The net amount can be straight away recorded in the Amount column. Calculations regarding Trade Discounts are done in the Debit Note.

POSTINGS OF THE PURCHASES RETURNS BOOK

The monthly totals of the Purchases Returns Book is credited to Purchases Returns Account and the concerned Suppliers' Accounts are debited.

In fact the Purchases Returns will reduce the total purchases made by the concern. Therefore when the Net Purchases are calculated the Total Purchases Returns will be deducted from the Total Purchases.

Dr. PURCHASES RETURNS ACCOUNT *Cr.*

			1977		Rs. P.
			Nov. 30	By Sundries	1,432 —

Dr. WOODEN CARVINGS MART *Cr.*

1977		Rs. P.			
Nov. 10	To Purchases Returns A/c	360 —			

Dr. BHARATHI ART WORKS *Cr.*

1977		Rs. P.			
Nov. 22	To Purchases Returns A/c	432 —			

Dr.	MODERN CULTURE PALACE		*Cr.*
1977		Rs. P.	
Nov. 29	To Purchases Returns A/c	640 —	

SALES RETURNS BOOK (RETURNS INWARDS BOOK)

Just as we return defective goods to suppliers, our customers might return the goods which they have previously purchased from us. In other words, what we have sold is now returned to us. So, it is known as Sales Returns.

On receipt of the goods, we send a Statement informing our customer that we have credited his account in our books and settlement would be made accordingly.

CREDIT NOTE

It is a statement prepared in duplicate by the Trader who receives back from his customers the goods sold. It gives the address of the customer, description of the goods, quantity returned, and also its value.

SPECIMEN OF A CREDIT NOTE

CREDIT NOTE

No. 8

Telegram : 'JEAN'
Telephone : 446132

15, Pondy Bazaar
Madras-600 017.
12 November 1977.

UTILITY GARMENTS CORPORATION, MADRAS

To

M/s. NITHYANANDAM & SONS,
Readymade Dress Stockists,
15, Big Bazaar Street.
Tiruchirapally.

We are hereby crediting your Account with the value of undermentioned materials returned by you for reasons stated as in your letter/D.N. No...... dated. ......

Description	*Specification*	*Quantity*	*Price*	*Details*	*Amount*
			Rs. P.		Rs. P.
'T' Shirts	32″	25	10 00	250 —	
Less : Trade Discount 10%				25 —	225 —

For UTILITY GARMENTS CORPORATION.

REF : ....

x x x
Signature

E. & O.E.

From the copies of Credit Notes, our Sales Returns Book is written up.

Illustration

Record the following transactions in the **Returns Inwards Book** of Utility Garments Corporation :

1977

February 10 M/s. Nithyanandam & Sons returned 25 'T' shirts @ Rs. 10 less T.D. 10% Credit Note No. 8.

,, 19 M/s. Sumithra & Sons returned 40 Half pants @ Rs. 15 less T.D. 10% Credit Note No. 9.

,, 24 M/s. Nataraj & Company returned 20 pants @ Rs. 25 less T.D. 10% Credit Note No. 10.

RETURNS INWARDS BOOK

(SALES RETURNS BOOK)

Date	*Particulars*	*L.F.*	*Credit Note No.*	*Amount*
				Rs. P.
1977				
Feb. 10	M/s. Nithyanandam & Sons		8	225 —
19	M/s. Sumitra & Sons		9	540 —
24	M/s. Nataraj & Company		10	450 —
28	Sales Returns A/c Dr.			1,215 —

Note.—There is no need to write details when the Credit Note numbers are given.

POSTINGS OF THE SALES RETURNS BOOK

The monthly totals of the Sales Returns Book will be debited to the Sales Returns Account in the Ledger and the individual customer's accounts will be credited.

Sales Returns reduce the total sales made by the concern. Therefore when the net sales are calculated the Total Sales Returns will be deducted from the Total Sales.

Dr.	SALES RETURNS ACCOUNT	Cr.
1977 Rs. P. Feb. 28 To Sundries 1,215 —		

Dr.	NITHYANANDAM & SONS	Cr.
		1977 Rs. P. Feb. 10 By Sales Returns A/c 225 —

Dr.	SUMITRA & SONS	Cr.
		1977 Rs. P. Feb. 19 By Sales Returns A/c 540 —

Dr.	NATARAJ & COMPANY	Cr.
		1977 Rs. P. Feb. 24 By Sales Returns A/c 450 —

QUESTIONS

OBJECTIVE TYPE

I. *Complete the following sentences with suitable words* :—

(*a*) Goods sold on credit will be entered in the ——— (Sales Book).

(*b*) The total of Purchases Return Book is posted on the ——— side of the Purchases Returns Account in the Ledger (credit).

(*c*) Goods purchased on credit will be entered in the ——— Book. (Purchases).

(*d*) Debit Note Column will appear in the ——— Book. (Purchases Returns).

II. *State whether the following are True or False* :—

(*a*) Cash Sales will be entered in the Sales Book.

(*b*) Credit Purchases will be entered in the Purchases Book.

(*c*) Purchases Returns Book is a part of the Journal.

(*d*) The Sales Returns Book records returns of anything sold.

(**Answer** : *a*, *d* : False. *b*, *c* : True.)

III. *Match the following* :

(1) Sales Book.	(*a*) Returns Outwards.
(2) Purchases Book.	(*b*) Returns Inwards.
(3) Purchases Returns Book.	(*c*) Credit Sales.
(4) Sales Returns Book.	(*d*) Credit Purchases.

(**Answer** : 1-c ; 2-d ; 3-a ; 4-b ;)

OTHER QUESTIONS

I. Explain the purpose of keeping Subsidiary Books. Give examples.

II. What are the advantages of Sales Day Book ?

III. Give an account of the various Subsidiary Books used in business.

IV. What is meant by (*a*) Debit Note and (*b*) Credit Note ? Under what circumstances are they issued ?

V. Explain why a Purchases Book and a Sales Book are made use of in Practical Book-keeping. Give an elementary form of their ruling and enter the following transactions :—

				Rs.
1975 Jan.	1	Bought goods from Baskar	..	1,000
	2	Sold goods to S. Somu	..	500
	3	Purchased goods from D. Dhanapal	..	500
	10	Sold goods to S. Shankar	..	350
	18	Sold goods to S. Somu	..	250
	20	Purchased goods from E. Edward	..	300
	30	Sold goods to Sundar	..	300

(**Answer** : Purchases Book Total Rs. 1800 ;
Sales Book Total Rs. 1400.)

VI. Enter the following transactions in proper Subsidiary Books and post them in the Ledger :

			Rs.
1975 March	1	Bought goods from A. Albert ..	2,000
	2	Sold goods to B. Brown ..	1,000
	3	C. Charles sold goods to us .	1,000
	8	D. David bought goods from us ..	1,000
	10	Received goods returned by B. Brown ..	80
	12	We returned goods to A. Albert ..	50
	18	Sold goods to M. Mohan .	500
	22	Purchases goods from Moses	600
	25	Returned goods to C. Charles .	100
	30	Sold goods to S. Solomon ..	600

(**Answer :** Purchases Book Total Rs. 3,600 , Sales Book Total Rs. 3,100 , P.R. Book Total Rs. 150 ; S. R. Book Total Rs. 80.)

VII. Enter the following transactions in the Purchases Book and post them to the Ledger :

1974

February 1 Bought of Appu Trading Company : 4 Gross 200 pages Unruled Bound Note-books @ Rs. 20 per dozen. 2 Gross 80 pages Ruled Notebooks @ Rs. 6 per dozen.

8 Purchased from Guha Publishers : 100 copies of Systematic Precis Writing @ Rs. 2.50 per copy, Less 15% Trade Discount.

18 Bought of Arul Stores : 20 Gross Nataraj Pencils @ Rs. 12 per dozen. 100 numbers Pencil Sharpeners @ Rs. 1.50 per piece.

24 Purchased from Sri Ram Watch Company 1 Dozen ' Super Star ' Alarm Time Pieces @ Rs. 30 each, Less 20% Trade Discount.

(**Answer :** Purchases Book Total Rs. 4,634.50)

VIII. Enter the following transactions in the Sales Book of M/s. Saraswathy Traders and post them to the Ledger.

1974

August 5 Sold to Sundar 100 kgs of Coffee Powder @ Rs. 20 per kg and 30 kgs of Tea @ Rs. 16 per kg.

12 Sold to Ganesh Rao 15 tins of Manga Ram Biscuits @ Rs. 25 per tin.

18 Sold to Jawahar Stores 100 copies of 'Modern Cookery' @ Rs. 10 per copy, Less 20% Trade Discount.

24 Subbu bought from us 50 kgs of Sugar @ Rs. 4.50 per kg.

27 Sold to Jeevan Babu 100 sets of Pocket Arithmetic Box @ Rs. 12 per set, Less Trade Discount of 15%.

(Answer : Sales Book Total Rs. 3,600)

IX. Write up the following transactions in proper Subsidiary Books of Malathy and post them to the Ledger.

			Rs.
1974			
May	10	Bought goods from Sekaran ..	600
	15	Purchased goods from Raman Bros., for .. Less 5% Trade Discount	1,000
	22	Returned to Raman Bros., goods worth (which were supplied to us on 15th May at 5% Trade Discount) ..	400
	24	Param sold goods to us ..	450
	28	Sent a Debit Note to Sekaran for damage of goods in transit ..	25

(Answer : Purchases Book Total Rs. 2,000 ; P.R. Book Total Rs. 405)

X. Record the following transactions in the proper Subsidiary Books of M/s. Pankajam & Co., and post them to the Ledger.

			Rs.
July	4	Sold goods to Ganesa Pandian ..	475
	6	Sold goods to Sivakami for Rs. 1,200 less 4% Trade Discount	
	12	Sold goods to Kumaran ..	175
	16	Received goods returned by Sivakami (Original Invoice subject to Trade Discount) ..	200
	23	Sent Credit Note to Kumaran for Rs. 15 being the Invoice over—charged.	

(**Answer :** Sales Book Total Rs. 1,802 ; S.R. Book Total Rs. 207.)

XI. Enter the following transactions in proper Subsidiary Books of Rajan and post them to the Ledger.

1974

July 1 Sold goods to Kasi worth Rs. 1,000 off 10% Trade Discount.

5 Received goods worth Rs. 400 (gross) returned by Kasi.

8 Nathan supplied goods worth Rs. 1,500.

14 Purchased goods worth Rs. 700 from Dayalan and sold them to David at 10% profit.

19 Returned goods worth Rs. 150 to Nathan.

26 David returned goods worth Rs. 100 which were sent back to Dayalan.

(**Answer :** Purchases Book Total Rs. 2,130 ; Sales Book Total Rs. 1,670 ; P.R. Book Total Rs. 240.90 ; S.R Book Total Rs. 500).

XII. The transactions of Ratnam are as follows. Write up his Subsidiary Books.

1974

June 6 Purchased goods worth Rs. 1,500 from Jothi Traders. Less 10% Trade Discount.

8 Purchased goods from Grand Sales Corporation for Rs. 2,500 and sold them to Lajapati Traders for Rs. 3,100.

12 Returned to Jothi Traders goods worth Rs.500 (gross).

16 Sold goods to Arasu for Rs. 800, Less 15% Trade Discount.

19 Arasu returned goods worth Rs. 100 (Net).

28 Dhanapal bought from us goods worth Rs. 2,400.

30 Received order for goods worth Rs. 1,000 from Beekay Corporation and despatched the goods immediately.

(**Answer :** Purchases Book Total Rs. 3,850 ; Sales Book Total Rs. 7,180 ; P.R. Book Total Rs. 450 ; S.R. Book Total Rs. 100).

XIII. Enter the following transactions in the appropriate special Journals :

August 1 Bought of Sivan goods Rs. 1,000 as per their Invoice No. 77.

4 Sold to Sundar goods Rs. 700 as per our Invoice No. 69.

7 Returned to Sivan goods Rs. 100 Debit Note No. 5

9 Sundar returned goods, Rs. 150, Credit Note 10.

14 Sold to Ram, goods of Rs. 500, as per Invoice No. 70.

14 Purchased from Rahim goods of Rs. 575, Invoice No. 78.

17 Returned to Rahim goods of Rs. 75, D.N. No. 6.

28 Ram returned goods of Rs. 120, C.N. No. 11.

(**Answer :** Purchases Book Total Rs. 1,575 ; Sales Book Total Rs. 1,200 ; P.R. Book Total Rs. 175 ; S.R. Book Total Rs. 270).

XIV. Enter the following transactions in the proper Subsidiary Books .

1971

Jan. 1 Bought from Prakash 250 bags of Wheat @ Rs. 100 per bag. Less Trade Discount 10%.

2 Purchased of Kamban 150 bags of Rice @ Rs. 90 per bag. Less Trade Discount 5%.

8 Sold to Lakshmanan 50 bags of Rice @ Rs. 120 per bag. Less Trade Discount 5%.

12 Returned to Prakash 5 bags of Wheat which was purchased on 1-1-1971.

12 Sold to Subramaniam 10 bags of Wheat @ Rs. 120 per bag. Less Trade Discount 10%.

25 Subramaniam returned Wheat worth Rs. 216 (net).

30 Returned 20 bags of Rice to Kamban.

31 Bought of Sukumar 150 bags of rice @ Rs. 80 per bag.

31 Bought from Pratap 100 bags of Wheat @ Rs. 80 per bag.

(**Answer** : Purchases Book Total Rs. 55,325 ; Sales Book Total Rs. 5,780 ; P.R. Book Total Rs. 2,160 , S.R. Book Total Rs. 216).

XV Enter from the following transactions, only those that should appear in the four Subsidiary Books, viz., Purchases Book, Sales Book, Purchases Returns Book and Sales Returns Book. Also post entries to Personal Accounts only and balance them.

1 Furniture worth Rs. 150 purchased from X on credit.

2 Sold goods worth Rs. 800 to Y.

3 Purchased goods from *A* worth Rs. 1,000.

4 Sold goods to *B* worth Rs. 950.

5 Goods worth Rs. 150 were returned by *B*.

6 *M* purchased from us goods worth Rs. 700.

7 Goods worth Rs. 650 sold to *C* for cash.

8 We returned goods to *A* worth Rs. 200.

9 Received goods worth Rs. 75 returned by *Y*.

10 Purchased goods from *D* worth Rs. 1,025.

(**Answer** : Purchases Books Total Rs. 2,025 , Sales Book Total Rs. 2,450 ; P.R. Book Total Rs. 200 ; S.R. Book Total Rs. 225).

XVI. Prepare a Purchases Book from the following transactions :

1977

May 1 Bought of M/s Chenniyappan, Salem
100 bags of Wheat @ Rs. 53 per bag.
50 bags of Rice Basmati @ Rs. 110 per bag Less 10% Trade Discount.

3 Bought of M/s Kanniah Oil Mills, Dharmapuri
40 tins Oil @ Rs. 50 per tin.
20 tins Vanaspati Oil @ Rs. 45 per tin.
Less 5% Trade Discount.

4 Purchased of Govindaswami of Arcot
25 bags Gram @ Rs. 48 per bag.
40 bags Oats @ Rs. 25 per bag.
Less 5% Trade Discount.

(Total of Purchases Book : Rs. 14,565)

XVII. M/s. Ratnaswamy & Sons, who are dealers in Ready-made Garments, purchased the following. Prepare Purchases Book ·

1972

Dec. 1 Purchased from M/s Karuppiah & Sons, Karur
100 Shirts @ Rs. 37 per Shirt.
50 Zee shirts @ Rs. 16 per Shirt.
Less 15%. Trade Discount.

12 Purchased from M/s Cunniah & Sons, Coimbatore
5 Chairs @ Rs. 20 per Chair.

15 Purchased from M/s Kumar & Bros.
50 Bush Shirts @ Rs. 35 per piece.
75 'T' Shirts @ Rs. 10 per piece.
Less 15% Trade Discount.

25 Purchased from M/s Raj Kumar & Sons for cash
25 Shirts @ Rs. 9 per Shirt.

(Total of Purchases Book : Rs. 5,950)

CHAPTER VIII

BILLS RECEIVABLE AND BILLS PAYABLE BOOK

Business transactions are, as we saw earlier, either cash transactions or credit transactions. When a person buys for a smaller amount, the seller relies on his personal reputation for the recovery of the dues and no security or evidence is necessary. But when the amount involved is a large one, well, it is a matter of both prudence and precaution to have a written document in evidence of the transaction. Such documents are known as Credit **Instruments.** Bills of Exchange, Promissory Notes, Hundis are popular credit instruments used in trade. They facilitate the occurrence of credit transactions on a large scale.

A *Bill* of Exchange *is more frequently used in business. It is* defined as an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument. The Creditor (e.g., a Trader who sells on credit basis) draws a *Bill* on the debtor (e.g., a person who buys on credit basis).

Due to the frequency of Bill transactions in bigger business concerns, Separate subsidiary Books are earmarked for recording Bill transactions.

BILLS RECEIVABLE BOOK

The debtors accept our Bills. On maturity of the Bills they will make payment. Therefore they are known as BILLS RECEIVABLE. When we have to receive money from other parties on Pronotes and Hundis, they also deserve to be called Bills

Receivable. The specimen of a Bill Receivable Book is given below :

SPECIMEN

BILLS RECEIVABLE BOOK

Serial Number	*Date Received*	*From whom Received*	*L.F.*	*Drawer*	*Acceptor*	*Where Payable*	*Date of Bill*	*Term*	*Due Date*	*Amount*	***How Disposed of***
									Rs.		

Illustration No. 1

Enter the following transactions in the Bills Receivable Book of Rajaram :

1974			Rs
Jan.	1	Received a Bill Receivable from Raju due after 3 months ..	800
	12	Received from Krishna his Promissory Note at 2 months ..	500
	18	Received from Gopal his Acceptance at 60 days ..	400
	24	Received from Babu, Gopi's acceptance dated 20-1-1974 for 90 days ..	100
	25	Drew a Bill dated 22nd January, 1974 on Selvam at 30 days ..	200
	27	Mukesh gave his Acceptance at 30 days ..	300

BILLS RECEIVABLE BOOK OF RAJARAM

S. No.	*Date of Receipt*	*From Whom Received*	*L.F.*	*Drawer*	*Acceptor*	*Where payable*	*Date of Bill*	*Term*	*Due Date*	*Amount*	*How disposed of*
										Rs.	
1	1-1-74	Raju		Self	Raju	Bank of Baroda, Madras	1-1-74	3 months	4-4-74	800	
2	12-1-74	Krishna		Self	Krishna	,,	12-1-74	2 months	15-3-74	500	
3	18-1-74	Gopal		Self	Gopal	Canara Bank, Bombay	18-1-74	60 days	22-3-74	400	*
4	24-1-74	Babu		Babu	Gopi	,,	20-1-74	90 days	23-4-74	100	
5	25-1-74	Selvam		Self	Selvam	Bank of Madurai, Trichy	22-1-74	30 days	24-2-74	200	
6	27-1-74	Mukesh		Self	Mukesh	,,	27-1-74	30 days	1-3-74	300	**
	31-1-74	Bills Recivable A/c Dr.						Total		2,300	

* Discounted in the Bank ** Endorsed to Nagesh

Illustration No. 2

Enter the following transactions in the Bills Payable Book of Gomathi Narayanan :

1974

March 1 Accepted Rajanayakam's Bill drawn at 60 days sight Rs. 200. (Payable at I.O.B. Madras-2.)

8 Accepted Periyanayagam's Bill dated 2-3-1974 at 3 months after date for Rs. 300. Payable to Murthi & Co.

14 Sent Balanarayan our Acceptance at 60 days for Rs. 100 in favour of Vinayakam. The Bill was drawn on 3-3-1974.

20 Received a Bill at 3 months for Rs. 500 drawn on us on 10th March by Kittu in favour of Pattu and accepted it. (Payable at Canara Bank, Trichy.)

25 Gave Subbu our Promissory Note payable after 3 m/d for Rs. 200. (Payable at Syndicate Bank, Coimbatore.)

28 Chenniappan drew on us a 30 days' Bill for Rs. 300. The Bill was accepted and returned (Payable at Indian Bank, Bombay).

BILLS PAYABLE BOOK OF GOMATHI NARAYANAN

S. No.	*Date given*	*To whom given*	*L.F.*	*Payee*	*Where Payable*	*Date of Bill*	*Term*	*Due Date*	*Amount*	*How disposed of*
1	1-3-74	Raja-Nayakam		Raja-Nayakam	I.O.B., Madras-2	1-3-74	60 days	3-5-74	200	
2	8-3-74	Periya-Nayagam		Murthi & Co.,	,,	2-3-74	3 months	5-6-74	300	
3	14-3-74	Bala-Narayan		Vinaya-gam	,,	3-374	60 days	5-5-74	100	
4	20-3-74	Kittu		Pattu	Canara Bank, Trichy	10-3-74	3 months	13-6-74	500	
5	25-3-74	Subbu		Subbu	Syndicate Bank, Coimba-tore.	25-3-74	3 months	28-6-74	200	
6	28-3-74	Chenni-yappan.		Chenni-yappan	Indian Bank, Bombay.	28-3-74	30 days	30-4-74 Cr.	300	
	31-3-74 Bills Payable A/c Cr.							Total ..	1,600	

QUESTIONS

OBJECTIVE TYPE

I. *State whether the following are True or False.*

(*a*) Bill received from 'A' will be entered in the Bills Receivable book.

(*b*) Bill accepted and sent to 'B' will be entered in the Cash Book.

(*c*) The individual amounts of Bills Payable Book will be transferred to the credit side of Personal Accounts.

(**Answer : *a*. True ; *b*, *c*. False**)

II. *Fill in the blanks* :

(*a*) When a Bill is accepted, it will be entered in ———— Book. (Bills Payable).

(*b*) When a customer sends us a Bill, it will be entered in ——— Book. (Bills Receivable).

OTHER QUESTIONS

I. What is the need of Bills Receivable Book and Bills Payable Book ?

II. Enter the following in their respective books of Rajagopalan :

1973

July 1 Received from Basker his Bill at 2 months for Rs. 700.

5 Accepted Srikumar's Bill for Rs. 600 payable one month after date.

6 Received from Mohan a Bill duly accepted, for Rs. 740 dated July 4th, payable 3 months after date at Bank of India.

7 Balraj drew on Rajagopal at 2 months for Rs. 500 and Rajagopal accepted the Draft payable at Bank of Baroda.

15 Received from Kannan a Bill for Rs. 900 dated July 10 accepted by Krishnan and drawn by Murali payable 2 months after date.

22 Accepted Rangan's Draft for Rs 800 at 3 months from date (July 15).

CHAPTER IX

JOURNAL PROPER

The introduction of Subsidiary Books to record Credit Purchases, Credit Sales, Returns Inwards, Returns Outwards, Cash, transactions and Bill transactions has reduced to a very great extent the need for journalising a transaction, because the first entry is made in these Subsidiary Books and later they are posted in the Ledger.

But still there are definitely some types of transactions left out. There is no separate Subsidiary Book for them. As such transactions are limited in number, it is not desirable to introduce Subsidiary Books for them.

Therefore the Journal Proper is used as a Common Account Book to record such transactions and they get posted in the Ledger.

Such transactions relate to the following activities of the business concerns :

(1) Consignment of Goods.

(2) Joint Venture.

(3) Credit Purchase and Credit Sale of business assets.

(4) Personal consumption of goods by the Proprietor.

(5) Loss or destruction of goods by theft, fire etc.

(6) Claims from Insurance Companies, Railways, etc.

(7) Dishonour of Bills of Exchange.

These and other types of business activities may not occur daily. Therefore they are conveniently journalised in the Journal Proper. (The term ' Proper ' is being used to distinguish the Journal from the original concept of a Journal where all transactions are recorded).

Apart from the above seven types of transactions the following entries are also passed through the Journal Proper :

(1) Opening entries.

(2) Transfer entries.

(3) Rectifying entries.

(4) Closing entries.

(5) Adjusting entries.

(1) Opening Entries

We know that the accounts are closed at the end of the financial year and a Balance Sheet is prepared. But in the subsequent year when the activities commence an opening entry has to be passed.

e.g., Sundry Assets A/c Dr. ..
(Each separately)
To Sundry Liabilities A/c
(Each separately)
,, Capital A/c ..
(being last year's balance
brought forward)

Each Asset should be debited separately. Similarly, each liability should be credited separately.

(2) Transfer Entries

There are occasions when the balance of one account is to be transferred to another account. *e.g.* When a debtor becomes insolvent and no amount is recoverable from him there is no point in keeping that Debtor's A/c in the ledger showing a debit balance. Better to close it by transferring that debit balance to the Bad Debts A/c.

Bad debts A/c Dr. ..
To X A/c

Another occasion is when the proprietor requires for his personal use at home certain pieces of furniture already bought for office use. In that case the entry will be :

Drawings A/c Dr. ..
To Furniture A/c

Similarly when the Proprietor requires some of the goods for his personal consumption the entry will be

Drawings A/c Dr. ..
To Purchases A/c ..

It is credited in the Purchases A/c on the basis that the Proprietor takes at purchase price—the purchases are reduced.

If he takes at the Sales price, the Sales A/c may be credited, treating it as Sales. In that case, the entry will be as bellow :

Drawings A/c Dr. ..
To Sales A/c

(3) Rectifying Entries

It is not unusual that mistakes arise in Book-keeping. Sometimes wrong heads of accounts are debited, *e.g.* When Furniture is purchased, a wrong entry, debiting Purchases A/c may be passed. We can't erase any entry in the Account Book. The only remedy to rectify such mistakes is to pass a rectifying entry as given below :

Furniture A/c Dr. ..
To Purchases A/c ..

(4) Closing Entries

At the year end, we have to find out the profit of the concern. For this purpose, some of the Accounts have to be closed. *e.g.* Salaries A/c, Rent A/c, Office Expenses A/c, etc.

Profit and Loss A/c Dr. ..
To Salaries A/c ..

(5) Adjusting Entries

To find out profit or loss accurately, some adjustments in the various accounts become necessary. Let us take the case of Machinery which was purchased at the year beginning for Rs. 10,000. It has been used throughout the year in the profit earning process. The machine would have undergone wear and tear. If we show it at its original value at the end of the year also, the account will not show a true and fair view of the position. Therefore we have to charge Depreciation.

Depreciation A/c Dr. ..
To Machinery A/c ..

Thus these entries also have to be made in the Journal Proper.

QUESTIONS

I. What is a Journal Proper? For what purposes it is used when there are Subsidiary Books?

II. Give examples of Opening, Closing and Adjusting entries.

III. What are Rectifying Entries? Can we record them in any of the Subsidiary Books?

CHAPTER X

CASH BOOK

INTRODUCTION

We know that transactions are of two types—Cash transactions and Credit transactions. We are having a number of Subsidiary Books to record the credit transactions. Similarly we are having a Cash Book i.e. Cash Account Book to record all cash transactions. As all the cash transactions are going to be recorded in one and the same book, this book should be necessarily a bigger one, depending upon the size of the business.

Nature of the Cash Book

(1) It is one of the Subsidiary Books.

(2) It is a Book of Prime Entry as the transactions are recorded as and when they occur.

(3) It is also a Book of Final Entry, (Ledger) because the entries made in the Cash Book are not posted in a separate Cash A/c in the ledger. There is no such necessity. Cash Book itself is just like a Ledger as far as cash incoming and cash outgoing are concerned. Only the other aspect is posted in the Ledger.

(4) The ruling in the Cash Book resembles the ruling of a Ledger account. Like any Ledger account it has two sides. In this respect it differs from all other Subsidiary Books.

(5) The Cash Book thus serves the purpose of both a Subsidiary Book and also Ledger.

Kinds of Cash Book

(1) Single Column Cash Book (i.e., Cash book with Cash column only).

(2) Double Column Cash Book (i.e., Cash book with Cash and Discount columns).

(3) Triple Column Cash Book (i.e., Cash book with Discount column, Cash column and Bank column).

SINGLE COLUMN CASH BOOK

There is only one column i.e., Cash column. It resembles a Cash Account. The specimen is as given below :

Dr CASH BOOK *Cr.*

Date	*Particulars*	*L.F.*	*R. No.*	*Amount*	*Date*	*Particulars*	*L.F.*	*R. No.*	*Amount*

How to use the Cash Book

(*a*) When you receive cash, record it in the debit side.

(*b*) When you pay cash or withdraw cash (for your own purpose also), record it in the credit side.

(*c*) The Cash Book is balanced in the same manner as we balance Ledger accounts.

(*d*) The debit side is *always* having a heavier total. Therefore in the credit side, write ' By Balance c/d ' for the difference.

(*e*) When the next trading period begins, the balance is brought down by writing. ' To Balance b/d '

Illustration

Enter the following transactions in a Single Column Cash Book of Mr. Manickavasagam :

1977			Rs.
Jan.	1	Started a business with cash	10,000
	5	Purchased goods for cash ..	4,000
	6	Purchased goods from X & Co., on credit .	2,000
	7	Paid into the Bank ..	3,000
	12	Paid X & Co., ..	2,000
	18	Sold goods for cash ..	5,800
	20	Sold on Credit to Y & Co., ..	3,200
	25	Paid Salaries ..	600
	27	Received Cheque from Y & Co., ..	2,200
	28	Received Commission ..	400
	29	Trunk Call Expense ..	15
	30	Purchased Furniture ..	800
	31	Drawn from Bank ..	1,500

CASH BOOK

Dr. | *Cr.*

Date	*Particulars*	*L.F.*	*Amount*	*Date*	*Particulars*	*L.F.*	*Amount*
1977			Rs.	1977			Rs.
Jan. 1	To Capital A/c		10,000	Jan. 5	By Purchases A/c		4,000
18	,, Sales A/c		5,800	7	,, Bank A/c		3,000
27	,, Y & Co. A/c		2,200	12	,, X & Co. A/c		2,000
28	,, Commission A/c		400	25	,, Salaries		600
31	,, Bank A/c		1,500	29	,, Postage & Telegrams A/c		15
				30	,, Furniture A/c		800
				31	,, Balance c/d		9,485
			19,900				19,900
Feb. 1	To Balance b/d		9,485				

Note :

(*a*) When a Cheque or Postal Order or Money Order is received, it is treated as Cash Receipt.

(*b*) We cannot pay more than what we receive. Therefore Receipt side (i.e., Debit side) total is always heavier.

(*c*) Credit Purchases, Credit Sales etc. cannot be recorded in the Cash Book. They will be recorded in the Subsidiary Books.

(*d*) Cash Books serve the double purpose of Journal or Subsidiary Journal and also Ledger. Therefore a cash transaction once entered in the Cash Book need not be recorded in any other place. But as you know every transaction has two aspects. Only cash aspect (whether debit or credit) is entered in the Cash Book. The other aspect has to be recorded in the concerned Ledger Accounts to complete Double Entry System.

Postings from the Cash Book

All items appearing in *the debit side of the Cash Book will* be posted in the credit side of the concerned Ledger Accounts.

All items appearing in the credit side of the Cash Book will be recorded in the debit side of the concerned Ledger Accounts.

Then Double Entry will be complete.

In the above example, we have to credit.

Capital A/c	with	Rs.	10,000
Sales A/c	,,	,,	5,800
Y & Co., A/c	,,	,,	2,200
Commission A/c	,,	,,	400
Bank A/c	,,	,,	1,500

to make postings in the ledges from the Cash Book of Thiru Manikavasagam.

Similarly, we have to *debit*

Purchases A/c	with	Rs.	4,000
Bank A/c	,,	,,	3,000
X & Co.,	,,	,,	2,000
Salaries A/c	,,	,,	600
Postage & Telegrams A/c	,,	,,	15
Furniture A/c	,,	,,	800

From the Cash Book in the above Example, Postings are as follows :

Dr. *Capital Account* **Cr.**

		Rs.	1977		Rs.
			Jan. 1	By Cash A/c ..	10,000

Dr. *Sales Account* **Cr.**

			1977		
			Jan. 18	By Cash A/c ..	5,800

Dr. *Y & Co.* **Cr.**

			1977		
			Jan. 27	By Cash A/c ..	2,200

Dr. *Commission Account* **Cr.**

			1977		
			Jan. 28	By Cash A/c ..	400

Dr. *Bank Account* **Cr.**

1977			1977		
Jan. 7	To Cash A/c .	3,000	Jan. 31	By Cash A/c	1,500

Dr. *Purchases Account* **Cr**

1977					
Jan. 5	To Cash A/c ..	4,000			

Dr.	X & Co. Account		Cr.
1977		Rs.	
Jan. 12	To Cash A/c ..	2,000	

Dr.	Salaries Account		Cr.
1977			
Jan. 25	To Cash A/c ..	600	

Dr.	Postage & Telegrams Account		Cr.
1977			
Jan. 29	To Cash A/c ..	15	

Dr.	Furniture Account		Cr.
1977			
Jan. 30	To Cash A/c ..	800	

DOUBLE COLUMN CASH BOOK

One is the Cash column. Another is the Discount column. Therefore this book is known as Cash Book with Cash and Discount columns. We bring back to our mind what we have already learnt about Cash Discount. When a debtor is to pay Rs. 1,000 and when he pays promptly, he is eligible for Cash Discount if the firm follows a policy of giving Cash Discounts. Similarly when we pay our creditors promptly, we are eligible to receive Cash discounts if our creditors follow a similar policy.

(*a*) Cash received from our customers and Discount allowed to our customers take place together. Therefore in the debit side of the Cash Book, two columns are provided.

(*b*) Cash paid to our creditors and Discounts Received from our creditors go together. Therefore in the credit side of the Cash Book, two columns are provided for this purpose.

Illustration

Enter the following transactions in Sivanandam's Cash Book with Cash and Discount columns:

1977			Rs.
October	1	Cash Balance ..	2,200
	2	Cash Sales ..	4,000
	3	Credit sales to Kandaswamy ..	1,200
	4	Credit purchase for M/s Sitaram & Sons	2,700
	5	Bought goods for ..	1,800
	8	Kandaswamy paid his dues @ 2% Cash Discount	
	9	Paid M/s Sitaram & Sons Rs. 2,673 and settled their account	
	15	Cash withdrawn for personal expenses ..	400
	18	Drew a cheque for office use ..	1,500
	25	Paid Office Rent ..	750
	28	Paid into the Bank ..	2,500
	29	Received from Balu Rs. 480 in settlement of his account for ..	500
	30	Paid Salaries ..	400

Note :

(*a*) Credit purchases and Credit sales will not appear in the cash Book.

(*b*) When a cheque is drawn for office use, cash is received from the Bank and put in the cash box of the firm.

Dr. CASH BOOK WITH CASH AND DISCOUNT COLUMNS Cr.

Date	Particulars	L.F.	Discount Allowed	Amount	Date	Particulars	L.F.	Discount Received	Amount
1977			Rs.	Rs.	1977			Rs.	Rs.
Oct. 1	To Balance b/d			2,200	Oct. 5	By Purchases A/c			1,800
2	,, Sales A/c			4,000	9	,, Sitaram & Sons A/c		27	2,673
3	,, Kandaswamy A/c		24	1,176	15	,, Drawings A/c			400
18	,, Bank A/c			1,500	25	,, Rent A/c			750
29	,, Balu A/c		20	480	28	,, Bank A/c			2,500
					30	,, Salaries A/c			400
					31	,, Balance c/d			833
			44	9,356				27	9,356
1977 Nov. 1	To Balance b/d			833					

Postings

As we have seen in the previous illustration, the concerned Ledger Accounts are debited with the amounts appearing in the credit side of Cash Book.

Similarly concerned Ledger Accounts will be credited with the amounts appearing in the debit side of the Cash Book.

The Discount columns should not be balanced. They are just to indicate the parties who were allowed discount and from whom discounts were received by us.

The totals should be transferred to Discount Allowed Account and Discount Received Account in the Ledger.

POSTING THE CASH BOOK

Sales Account

			1977		Rs.
			Oct. 2	By Cash A/c ..	4,000

Kandaswamy Account

			1977		
			Oct. 3	By Cash A/c ..	1,176
				" Discount A/c ..	24

Bank Account

1977		Rs.	1977		
Oct. 28	To Cash A/c ..	2,500	Oct. 18	By Cash A/c ..	1,500

Balu Account

			1977		
			Oct. 29	By Cash A/c ..	480
				" Discount A/c ..	20

Purchases Account

1977		Rs.		Rs.
Oct. 5	To Cash A/c ..	1,800		

Sitaram & Sons Account

1977				
Oct. 9	To Cash A/c ..	2,673		
	" Discount A/c ..	27		

Drawings Account

1977				
Oct. 15	To Cash A/c ..	400		

Rent Account

1977				
Oct. 25	To Cash A/c ..	750		

Salaries Account

1977				
Oct. 30	To Cash A/c ..	400		

Discount Allowed Account

1977				
Oct. 31	To Sundries A/c ..	44		

Discount Received Account

			1977	
			Oct. 31	By Sundries A/c .. 27

Cash book with Discount and Bank Columns

In some business houses cash dealings are avoided except Petty Expenses. Such concerns maintain a Cash Book with Bank and Discount columns. All payments are made by cheques. Cash and cheques are received and immediately banked. Therefore there is actually no need for Cash Book with Cash column. They maintain Cash Book with Bank column and Discount column.

Such a Cash Book is nothing but a Bank Account.

SPECIMEN

CASH BOOK

Date	*Particulars*	*L.F.*	*Discount*	*Bank*	*Date*	*Particulars*	*L.F.*	*Discount*	*Bank*

DOUBLE COLUMN CASH BOOK

(In the context of receipts and issue of cheques)

In the previous illustration, you can notice that, we dealt with only cash transactions. But in practice a firm of some standing receives cheques from its customers and issues cheques to its creditors. How to record such transactions in a Cash Book with Cash and Discount columns only? Of course there is a Bank Account in the Ledger.

Rules for Recording

(1) When Cash, Postal Order & Money Order is received debit Cash A/c and when cash is paid credit Cash A/c. (Cash Column represents Cash A/c).

(2) When cheque is received from a party, treat it as cash and debit Cash A/c (corresponding credit goes to the party). When that cheque is sent to the bank, credit Cash A/c. (The corresponding debit is made in the Bank A/c in the Ledger).

(3) When cheque is issued, it should be considered as TWO transactions :

(1) Debit Cash A/c and credit Bank A/c in the Ledger.

(2) Debit the Party (or Head of Account) in favour of whom the cheque is issued and credit Cash A/c.

N.B.—The issue of a cheque does not disturb the cash position. Therefore both a debit and a credit are given.

(4) When the cheque, received from a party and sent to the bank for collection, is dishonoured, the process for receipt of cheque is reversed, the Cheque is returned by the Banker—Therefore debit Cash A/c and Credit Bank A/c. The Cheque is sent back to the party—Debit Party's A/c and Credit cash A/c.

(5) When our customer directly pays into our Bank A/c. split it into 2 transactions :

Debit Cash A/c and Credit the Party.

Debit Bank A/c and Credit Cash A/c.

The following illustration will explain this well :

Illustration

1977

Jan. 1 BALANCE : Cash on Hand Rs. 1,000. Cash at Bank Rs. 4,000.

3 Received from A Rs. 490 in satisfaction of Rs. 500.

6 Paid B Rs. 295 in satisfaction of Rs. 300.

7 Received a cheque from C for Rs. 390 in satisfaction of Rs. 400.

8 Paid D by cheque Rs. 197 in satisfaction of Rs. 200.

10 Ramu, a friend, got exchanged a hundred rupee note for ten numbers of ten rupee notes.

14 Sent C's cheque to Bank.

17 Rs. 500 withdrawn from Bank for office use.

20 Received a cheque from Gupta for Rs. 3,000.

23 Sent Gupta's Cheque to Bank.

27 Gupta's cheque was returned dishonoured.

28 Paid Salary Rs. 300.

29 Paid Rent by cheque Rs. 700.

30 Drew a cheque for Rs. 100 for personal use.

31 Paid for Purchases by cheque Rs. 2,000.

SOLUTION

Dr. **TWO COLUMN CASH BOOK** *Cr.*

Date	*Particulars*	*L.F.*	*Discount*	*Cash*	*Date*	*Particulars*	*L.F.*	*Discount*	*Cash*
			Rs.	Rs.				Rs.	Rs.
1977 Jan. 1	To Balance b/d			1,000	1977 Jan. 6	By D's A/c		5	295
3	,, A's A/c		10	490	8	,, D's A/c		3	197
7	,, C's A/c		10	390	14	,, Bank A/c			390
8	,, Bank A/c			197	23	,, Bank (for sending Gupta's cheque to Bank)			3,000
17	,, Bank A/c			500					
20	,, Gupta's A/c (for receiving Gupta's cheque.)			3,000	27	,, Gupta's A/c (for returning Gupta's dishonoured cheque to him.)			3,000

TWO COLUMN CASH BOOK—(*Contd.,*)

27	To Bank A/c (for getting back Gupta's cheque dis-honoured)			3,000	28	By Salaries A/c			300
29	,, Bank A/c			700	29	,, Rent A/c			700
30	,, Bank A/c			100	30	,, Drawings A/c			100
31	,, Bank A/c			2,000	31	,, Purchases A/c			2,000
						,, Balance c/d			1,395
			20	11,377				8	11,377
Feb. 1	To Balance c/d			1,395					

IN THE LEDGER

Bank Account

Date	*Particulars*	*L.F*	*Amount*	*Date*	*Particulars*	*L.F*	*Amount*
1977			Rs.	1977			Rs.
Jan. 1	To Balance b/d		4,000	Jan. 8	By Cash A/c		197
14	,, Cash A/c		390	17	,, Cash A/c		500
23	,, Cash A/c		3,000	27	,, Cash A/c		3,000
				29	,, Cash A/c		700
				30	,, Cash A/c		100
				31	,, Cash A/c		2,000
				31	,, Balance c/d		893
			7,390				7,390
Feb. 1	To Balance b/d		893				

A's Account

				1977			Rs.
				Jan.	3	By Cash A/c .	490
						,, Discount A/c	10

B's Account

1977			Rs.				
Jan.	6	To Cash A/c .	295				
		,, Discount A/c .	5				

C's Account

				1977			
				Jan.	7	By Cash A/c	390
						,, Discount A/c	10

D's Account

1977			Rs.				
Jan.	8	To Cash A/c .	197				
		,, Discount A/c	3				

Gupta's Account

1977				1977			
Jan.	27	To Cash A/c .	3,000	Jan.	20	By Cash A/c	3,000

Salaries Account

1977							
Jan.	28	To Cash A/c .	300				

RENT ACCOUNT

1977		Rs.
Jan. 29	To Cash A/c ..	700

DRAWINGS A/C

1977		
Jan. 30	To Cash A/c ..	100

PURCHASES A/C

1977		
Jan. 31	To Cash A/c ..	2,000

Let us now look into transactions involving cheques :

The Cash column represents the Cash A/c.

(a) Jan. 7—When the cheque is received from 'C', it is treated as cash; Cash column is debited and C's A/c is credited. As he is allowed a discount of Rs. 10 the Discount Allowed column is also debited and his A/c in the Ledger is credited.

(b) JAN. 8—When 'D' is paid by cheque, it is considered as two transactions. It is assumed that we draw Cash from the Bank. Therefore :

Cash A/c is *DEBITED.*

Bank A/c is *CREDITED.*

It is also assumed that cash is paid to 'D

D's A/c is DEBITED'

Cash A/c is CREDITED.

Though payment is made by cheque, it is passed through the mechanism of Cash Book and therefore it is considered as two

transactions. But in reality, Cash is neither coming in nor going out. Cash position is not disturbed. That is the reason why the same amount of Rs. 197 appears on both sides of the Cash book, to maintain the status quo.

(*c*) JAN. 10. When Ramu is getting change from us for a hundred rupee note, there is no alteration in our cash position. Therefore this is not recorded at all.

(*d*) JAN. 14. When C's cheque is sent to the Bank, Bank A/c is debited and Cash account is credited.

(*e*) JAN. 17. When Rs. 500 is drawn for office use,
Cash A/c is DEBITED &
Bank A/c is CREDITED.

(*f*) JAN. 20. When Gupta's cheque is received
Cash A/c is DEBITED &
Gupta's A/c is CREDITED.

(*g*) JAN. 23. When the above cheque is sent to the Bank
Bank A/c is DEBITED &
Cash A/c is CREDITED.

(*h*) JAN. 27. When Gupta's cheque is returned dishonoured, the above two entries (*f*) & (*g*) are reversed.

(*i*) JAN. 29—When Rent is paid by cheque it is assumed that Cash is drawn from the Bank and Rent is paid. Therefore it is assumed as TWO transactions.

(1) Cash A/c is DEBITED.
Bank A/c is CREDITED

(2) Rent A/c is DEBITED.
Cash A/c is CREDITED.

(j) Jan. 30—When a cheque for Rs. 100 is drawn for personal use, it is assumed that Cash is received from Bank and that cash is withdrawn by the Proprietor.

(1) Cash A/c is DEBITED.
Bank A/c is CREDITED.

(2) Drawings A/c is DEBITED.
Cash A/c is CREDITED.

(k) JAN. 31—When purchases are paid by cheque, similar treatment is given.

(1) Cash A/c is DEBITED.
Bank A/c is CREDITED.

(2) Purchases A/c is DEBITED.
Cash A/c is CREDITED.

THREE COLUMN CASH BOOK

The three columns are: DISCOUNT COLUMN, CASH COLUMN, and BANK COLUMN.

In other words there is no need for a separate Bank A/c in the Ledger. It is added to the Cash book. This is more convenient, economical and advantageous. Therefore many business concerns have adopted this method.

The special feature of this method is that whenever a transaction involving Cash A/c and Bank A/c takes place, it is entered on both sides of the Cash Book—One entry in the Cash column and another entry in the Bank column. Therefore in the L.F. column 'C' is put indicating contra, a latin word which means 'the other side'

Where the complete Journal entry (i.e. both the debit aspect and credit aspect) is recorded in the same book, there is no need for 'Ledger Folio' column because for the entry in the debit side,

the corresponding credit entry appears on the other side. Therefore in the L.F. column, the abbrevation 'C' for 'Contra' is written instead of Ledger Folio No.

Now let us be familiar with the Rules for making Entries :

N.B.—The Cash and Bank columns represent Cash and Bank Accounts respectively.

(1) When Cash/M.O./Postal Order is received Debit Cash A/c and when Cash is paid Credit Cash A/c.

(2) When cheque is received, treat it as cash ; Debit Cash A/c only and Credit the Party's A/c in the ledger.

(3) When that cheque is deposited in the Bank for collection, Debit Bank A/c and Credit Cash A/c.
(Put ' C ' in the L.F. Column)

(4) BUT when a cheque is received and IMMEDIATELY deposited in the BANK for collection, then
Debit Bank A/c &
Credit Party's A/c in the Ledger.

(5) When payment is made by cheque to any party or to meet any expense or to the proprietor's personal use, it can be directly recorded in the Bank column : (there lies the difference between Two column and Three column Cash Book)

(6) When cash is drawn for office use from the Bank
Debit Cash A/c
Credit Bank A/c
(Put ' C ' in the L.F. Column)

(7) When Cash is deposited in the Bank
Debit Bank A/c &
Credit Cash A/c
(Put ' C ' in the L.F. Column)

(8) When a cheque already received from a party and deposited in the bank, is returned dishonoured
Party's A/c is Debited &
Bank A/c is Credited.

NOTE—Please note the difference between Two Column & Three Column Cash Book here also.

(9) When a cheque issued to our customer by us is reported to us as dishonoured

Debit Bank A/c &
Credit the Party's A/c

(10) When a customer directly pays into our Bank Account

Debit Bank A/c &
Credit the Party's A/c.

Illustration No. 1.

Write out the Three Column Cash book of Thiru Panneer-Selvam :

1977

Jan. 1 Cash on Hand Rs. 2,000 ; Cash at Bank Rs. 3,000.

2 Paid into the Bank Rs. 1,000.

3 Cash Sales Rs. 1,500.

4 Sold on credit to Muthu for Rs. 4,000.

8 Muthu sent a cheque for Rs. 3,950 in full settlement.

9 Sold to Elango for Rs. 400 and he gave a cheque which was immediately banked.

12 Muthu's cheque was sent to Bank.

14 Bought goods for Rs. 2,000 and issued a cheque to the supplier Mr. Rahim.

15 Bought for Rs. 400 from Rajan.

16 Paid cash to Rajan Rs. 395 in full settlement.

17 Received M.O. Rs. 400 from customer Kulandaivelu.

19 Received a cheque from Kannan for Rs. 975 in full settlement of his account of Rs. 1,000.

20 Drew cash Rs. 100 and by cheque Rs. 200 for personal use.

22 Kannan's cheque was banked.

23 Drew from Bank for office use Rs. 1,200.

24 Paid Rent by cheque Rs. 600.

25 Paid Sambasivam by cheque Rs. 850.

27 Kannan's cheque was returned by Bank as dishonoured.

28 Velayutham, our customer has paid directly into our Bank a/c Rs. 2,000.

29 Sambasivam to whom we have issued a cheque of Rs. 850 has reported that our cheque is dishonoured.

30 A cheque for Rs. 150 is issued in favour of Vivekananda College, Madras, towards the college fees of the Proprietor's son.

THREE COLUMNAR CASH BOOK OF THIRU PANNEER SELVAM

Dr. | Cr.

Date	Particulars	L.F.	R. No.	Discount allowed	Cash	Bank	Date	Particulars	L.F.	V. No.	Discount received	Cash	Bank
				Rs.	Rs.	Rs.					Rs.	Rs.	Rs.
1977 Jan. 1	To Balance b/d				2,000	3,000	1977 Jan						
							2	By Bank A/c	C			1,000	
2	,, Cash A/c	C				1,000							
							12	,, Bank A/c	C			3,950	
3	,, Sales A/c				1,500								
							14	,, Purchases A/c				395	2,000
8	,, Muthu's A/c			50	3,950								
							15	,, Rajan A/c			5		
9	,, Sales A/c					400							
							20	,, Drawings A/c				100	200
12	,, Cash A/c	C				3,950							
17	,, Kulandaivelu's A/c				400								

THREE COLUMNAR CASH BOOK OF THIRU PANNEER SELVAM—(*Contd.*)

19	To Kannan's A/c			25	975		22	By Bank A/c	C			975	
22	,, Cash A/c	C				975	23	,, Cash A/c	C				1,200
23	,, Bank A/c	C			1,200		24	,, Rent A/c					600
28	,, Velayutham's A/c					2,000	25	,, Sambasivam's A/c					850
29	,, Sambasivam's A/c					850	27	,, Kannan's A/c			25		975
							30	,, Drawings A/c					150
								,, Balance c/d				3,605	6,200
				75	10,025	12,175					30	10,025	12,175
Feb. 1	To Balance b/d				3,605	6,200							

EXPLANATION FOR ENTRIES

(1) Jan. 2 — Bank receives. So Debit Bank (column) A/c Cash goes out. So Credit Cash (Column) A/c. (It is a Contra entry).

(2) Jan. 4 — Credit Sale. Therefore there is no entry in the Cash Book. Entry will be made in the 'Sales Book'.

(3) Jan. 8 — When Muthu is sending a cheque, it is treated as Cash. So Cash (column) A/c is debited and the discount allowed to him is debited in the 'Discount Allowed' (Column) A/c.

(4) Jan. 9 — Sale to Elango for Rs. 400 against his cheque is a Cash Sale. But the cheque is banked immediately. Therefore the Bank (column) A/c is debited.

(5) Jan. 12 — Muthu's cheque of Rs. 3,950 is sent to the Bank. We have on Jan. 8, treated Muthu's cheque as Cash. Now also we will treat it as Cash. So Cash goes out and the Bank receives.

Debit Bank (*Column*) A/c & Credit Cash (*Column*) A/c (Contra entry).

(6) Jan. 14 — When a cheque is issued to Rahim against purchase, Purchases A/c is Debited; Bank (*Column*) A/c is Credited.

(7) Jan. 19 — Kannan's cheque is treated as Cash.

(8) Jan. 20 — Personal drawings of cash Rs. 100 is credited to Cash (*column*) A/c and Rs. 200 cheque is credited to Bank (*column*) A/c.

(9) Jan. 22 — When Kannan's cheque is sent to Bank for collection

Debit Bank (*column*) A/c.

Credit Cash (*column*) A/c.

(10) Jan. 23 — When Cash is drawn from the Bank to be used in the Office, the amount is put in the Cash Box. So Cash (*Column*) A/c is **Debited**; Bank (*Column*) A/c is **Credited.**

(11) Jan. 24 — Refer Rule No. 5.

(12) Jan. 27 — When Kannan's Cheque is **returned** dishonoured,

Debit Kannan's A/c; Credit Bank (*Column*) A/c.

(Note the difference between Two Columnar and Three Columnar Cash Books.)

(*N.B.*—Even the discount allowed to Kannan must be cancelled)

(13) Jan. 28 — When our customer Velayutham directly pays into Bank, Debit Bank (*Column*) A/c; Credit Velayudham's A/c.

(14) Jan. 29 — When Sambasivam reports that the cheque is dishonoured,

Debit Bank (Column) A/c and
Credit Sambasivam's A/c.

(15) Jan. 30 — A cheque to meet the expenditure of Proprietor's son is nothing but Drawings. So,

Debit Drawings A/c.
Credit Bank (Column) A/c.

POINTS OF DIFFERENCES IN RECORDING THE TRANSACTIONS BETWEEN DOUBLE COLUMN CASH BOOK AND TRIPLE COLUMN CASH BOOK

S. No.	*Transaction*	*How Recorded in Two Column Cash Book with Cash Column & Discount Column*	*How Recorded in Triple Column Cash Book with Discount, Cash and Bank Columns*
1	When cheque is received	Treated as Cash received.	Treated as Cash received.
2	When cheque is received and immediately banked.	Debit Cash Column (treating it as cash).	Debit Bank a/c (straightaway treating it as cheque).
3	When cheque is issued	Debit Cash (Column) A/c and Credit Bank A/c. Debit Party's A/c and Credit Cash (Column) A/c.	Debit Party's and Credit Bank (Column) A/c.
4	When our customer's cheque already deposited in the Bank is now returned dishonoured.	Debit Cash (Column) A/c and Credit Bank A/c. Debit Party's A/c and Credit Cash (Column) A/c.	Debit Party's A/c and Credit Bank (Column) A/c.

Points of Differences in Recording the Transactions between Double Column Cash Book and Triple Column Cash Book—(*Contd.*)

5	When we draw from Bank for personal use.	Debit Cash (Column) A/c and Credit Bank A/c.	Debit Drawings A/c and Credit Bank (Column) A/c
		Debit Drawings A/c and Credit Cash (Column) A/c.	
6	When our customer directly pays into our Bank A/c.	Debit Cash (Column) A/c and Credit Customer's A/c.	Debit Bank (Column) A/c and Credit Customer's A/c
		Debit Bank A/c and Credit Cash (Column) A/c.	
7	When a cheque issued by us is dishonoured.	Debit Cash (Column) A/c and Credit Party's A/c.	Debit Bank (Column) A/c and Credit Party's A/c.
		Debit Bank A/c and Credit Cash (Column) A/c.	

QUESTIONS
OBJECTIVE TYPE

I *In each of the following cases, indicate the alternative which you consider to be correct.*

(*a*) The balance of a Cash Account indicates
   (1) Net income.
   (2) Cash in hand.
   (3) Difference between Debtors and Creditors.

(*b*) The Cash Book records
   (1) All cash receipts.
   (2) All cash payments.
   (3) All cash receipts and payments.
   (4) Cash and credit sale of goods.

(*c*) When goods are sold to Raghu for cash, the entry will be recorded in
   (1) Cash Book.
   (2) Sales Book.
   (3) Journal.

(**Answers :** *a*-2 ; *b*-3 , *c*-1)

II. *Fill in the blanks :*

(*a*) When a cheque received from a customer is dishonoured. his Accounts is ————

(*b*) When cash is withdrawn from Bank for office use, Cash A/c is ———— and Bank A/c is ————

(*c*) Discount allowed column appears in ———— side of the Cash Book.

(*d*) In the Cash Book with Discount and Cash Column, when a cheque is received the amount is entered in the ———— column.

(*e*) The allowance made for prompt payment is called ————

(*f*) A cheque received and paid into the Bank on the same day is recorded in the ———— column of the Three Columnar Cash Book.

(**Answers :** *a* : debited ; *b* : debited, credited ; *c* : debit ; *d* : Cash ; *e* : Cash Discount ; *f* : Bank)

III. *State whether the following statements are True or False :*

(*a*) Cash Discount is given by wholesaler to retailer, to enable the latter to sell at catalogue price.

(*b*) Trade Discount is not deducted in the Invoice.

(*c*) The Discount Columns in the Cash Book are not balanced.

(*d*) Contra entry appears in the Three Columnar Cash Book.

(*e*) Expenses are recorded in the debit side of the Cash Book

(**Answers :** *a*, *b*, and *e* , False. *c* and *d* : True).

IV. *Match the following :*

(1) Cash Book.	(1) Discount, Cash and Bank columns.
(2) All Cash Receipts.	(2) Debit side.
(3) Three Columnar Cash Book.	(3) Credit side.
(4) All cash payments.	(4) Subsidiary Book.

(Answers : 1-4 ; 2-2 ; 3-1 ; 4-3.)

OTHER QUESTIONS

I. ' Cash Book is not only a Book of Original Entry but also it forms a part of the Ledger '. Discuss.

II. Explain, with suitable illustrations, the various types of Cash Book.

III. Explain the terms ' Trade Discount ' and ' Cash Discount ' and differentiate them.

IV. Explain the difference between Cash Discount and Trade Discount. How are they treated in the Books of Account ?

V. What is meant by ' Contra Entry ' ?

VI. How are postings made from the Cash Book ?

VII. Write a note on ' Three Column Cash Book '.

VIII. Enter the following transactions in the Simple Cash Book (Single Column) of Santhanam and balance it.

1974			Rs.
July	1	Santhanam commenced business with cash ..	7,000
	2	Bought Furniture for cash ..	200
	3	Purchased goods for cash ..	800
	4	Paid Water charges ..	40
	5	Paid Rent ..	100
	6	Received from Gopal ..	2,000
	8	Paid Balaram ..	300
	9	Sold goods to Hari for cash ..	600
	10	Paid Amarlal ..	200
	12	Purchased goods for cash from Mohan ..	400
	13	Sold goods for cash to Sundaram ..	1,000

(**Answer** : Balance b/d. Dr. Rs. 8,560)

IX. From the following particulars, compile the Cash Book of Thiru Pandian consisting of Discount and Cash columns.

1974			
July	1	Pandian commenced business with cash ..	10,000
	2	Borrowed from Pasupathi ..	3,000
	3	Bought goods for cash ..	1,000
	4	Received from Mohan ..	380
		and allowed him discount ..	20
	5	Sold goods for cash ..	600
	6	Paid cash to Annasamy ..	285
		and Discount allowed by him ..	15
	8	Sent to Sudhakar by Money Order ..	200
		the M.O. Commission being ..	4
	10	Paid Salaries ..	100
	12	Received cash from Raju ..	600
		and allowed him Discount ..	25
	15	Bought Furniture for cash ..	100

(**Answer** : Balance b/d. Dr. Rs. 12,891)

X Enter the following transactions in the Two Columnar Cash Book (with Discount and Cash columns) of Rama.

1975			Rs.
Aug.	1	Balance of Cash in hand ..	12,000
	2	Cash Sales ..	1,500

		Rs.
3	Paid cash to Ram from whom goods worth Rs. 500 were purchased on credit on 28th July on terms '2% within a week' C.D.	
5	Received Interest in cash ..	100
6	Withdrew for private expenses from office cash ..	100
7	Paid Trade Expenses ..	50
8	Received cash from Durai to whom goods were sold for Rs. 800 on 1st August on terms '2% within a week' C.D.	
9	Received Rent for premises sub-let ..	100
10	Paid Rent ..	400
12	Received from Dhandapani ..	138
	Discount allowed to him ..	12
14	Ranga Ratnam settles his debt of Rs 500 less Discount 10%.	

(Answer : Balance b/d. Dr Rs. 14,032)

XI. Compile Two Column Cash Book from the following transactions :

1973 March	Rs.	1973 March	Rs.
1 Mr. Ganesh commenced business with cash ..	16,500	13 Paid for Stationery	40
3 Bought goods for cash	685	15 Sold goods for cash	2.500
4 Paid Mr. Mohan cash ..	95	17 Paid for Miscellaneous Expenses	45
and Discount allowed ..	5	19 Received cash from Mr. Chand ..	485
6 Deposited in Bank	4,000	Allowed him Discount ..	15
Paid for Office Furniture in cash	465	21 Purchased a Radio	250
9 Sold goods for cash	3,000	22 Paid Salary ..	400
12 Paid Wages in cash	120	25 Paid Rent ..	90
		28 Paid for Electricity Bill	35
		29 Paid for Advertising	40
		31 Paid into Bank	2,800

Answer:
(Cash Balance, Dr. Rs. 13,340)

XII. Enter the following transactions in a Cash Book with Cash and Discount Columns only, of Subbiah and balance the Cash Book as on 30th June, 1970 :

1970			Rs.
June	1	Commenced business with cash ..	15,000
		Paid into Bank ..	14,000
	4	Paid for Cash Purchases of goods by cheque ..	3,000
	7	Received for Cash Sales and deposited into bank ..	4,500
	8	Paid of Furniture ..	200
	12	Paid for Stationery ..	100
	15	Received a cheque from Ragupathy on Account ..	850
		Allowed him Discount ..	50
	16	Deposited the above cheque in to Bank ..	
	18	Paid to Kannappan on account in full settlement of Rs. 320 ..	300
	19	Withdrew for personal use by cheque ..	250
	24	Withdrew for office use by cheque ..	100
	26	Paid for Printing Charges ..	50
	30	Paid Salary by Cheque ..	220
	30	Paid Office Rent by cheque ..	50

(**Answer :** Balance b/d. Dr. Rs. 430)

XIII Enter the following transactions in a Three Column Cash Book :

1977			Rs.
Jan.	1	Started business with cash ..	20,000
	2	Opened Current Account with the National Bank ..	8,000
	3	Bought goods by cheque ..	150
	4	Received cheque from Rama ..	200
		Allowed him Discount ..	10
	5	Sold goods for cash ..	40
	7	Paid into Bank cash ..	30
	8	Paid Gopal by cheque ..	345
		Discount received ..	5
	9	Paid Carriage by cheque ..	180
	10	Drew from Bank cash for office ..	200
	30	Paid Wages by cheque ..	60

(**Answer :** Cash Balance, Rs. 12,410 and Bank Balance, Rs. 7,095)

XIV. Compile Three Column Cash Book from the following transactions :

1976 June	Rs.		Rs.
1 Cash Balance ..	5,000	21 Drawn from bank	500
Bank Balance ..	17,500	29 Paid Office Salaries in cash ..	400
5 Cash received from Sale of Shares ..	5,500	30 Sold goods for cash and banked the same ..	800
6 Paid into Bank .	5,000	Paid Rent by cheque	100
7 Paid Baskar by cheque ..	1,250	Paid into Bank ..	750
9 Paid Wages in cash	300		
20 Received from Mariappan by cheque	600		

(**Answer :** Cash Balance, Dr Rs. 5,150 ; and Bank Balance, Dr. Rs. 22,200)

XV Enter the following transactions in a Three Column Cash Book :

1973 February	Rs.		Rs.
1 Cash in hand ..	415	8 Cash Sales ..	150
Cash at Bank ..	2,530	10 Interest allowed by Bank ..	200
2 Paid Wages by cheque	950	Purchased Furniture by cheque	300
5 Goods purchased for cash ..	150	15 Received cheque from Sethu ..	250
Received cheque from Kapali ..	530	Discount allowed to him .	10
Discount allowed to him ..	20	Paid into Bank .	300
6 Paid to Uppili & Sons by cheque ..	400		
Discount received	15		

(**Answer :** Cash Balance, Rs. 895 ; Bank Balance, Rs. 1.380)

XVI. Make the following entries in Three Column Cash Book :

1975			Rs. P
Jan.	1	Cash in hand	3,151 20
		Cash at Bank	9,140 10
	5	Bought goods for Rs. 2.000 ; paid cheque for them, discount allowed 1%	

1975			Rs
Jan.	15	Paid Trade Expenses ..	120 00
	16	Paid Taxes ..	400 00
	17	Paid Insurance Charges ..	100 00
	25	Sold goods for Rs. 12,500, received cheque for them, discount allowed 1%..	
	28	Received cheque from Jaganathan ..	6,000 00
	30	Purchased 100 Shares for Rs. 100 each at Rs. 95 each and paid for them by cheque	

(**Answer** : Cash Balance, Rs. .. 20,906 20
Bank Balance O.D. Rs. .. 1.339 90)

XVII. Prepare a Three Column Cash Book from the following transactions :

1975			Rs.
Oct.	1	Cash in hand ..	1,800
		Cash at Bank ..	11,000
	7	Bought goods by cheque ..	7,000
	8	Bought goods for cash ..	500
	14	Paid Trade Expenses ..	105
	16	Paid in to Bank ..	1,000
	18	Raghu who owed us Rs. 500 became bankrupt and paid us 50 P. in a rupee..	
	20	Received cash from Madaswamy ..	400
		Allowed Discount ..	10
	23	Withdrew from Bank ..	400
	,,	Paid to Sivaswamy & Co. ..	300
		Discount received ..	10
	25	Withdrew from Bank for private expenses ..	300
	27	Sold goods for cash ..	200
	28	Received cheque for goods sold and banked it ..	9,000
	29	Received repayment of a Loan of Rs. 5,000 and deposited Rs. 3,000 out of it into Bank	
	30	Bank Charges as per Pass Book ..	5

(**Answer** : Cash Balance, Rs. 3,145 ; **and Bank** Balance, Rs. 18,295)

XVIII. Enter the following transactions in the Cash Book with three Columns and balance the same as on 31st January, 1971 :

1971				Rs.
Jan.	1	Cash in hand Rs. 400 and at Bank	..	4,000
	1	Cash received from Sale of Building	..	6,000
	2	Paid in to Bank	..	6,000
	3	Paid to Prabakar by cheque	..	2,470
		Discount allowed by him	..	30
	4	Paid Wages out of cash	..	150
	8	Received from Balarama cheque for Rs. 980 in full settlement of his account for	..	1.000
	10	Paid in to Bank, Balarama's cheque	..	
	18	Bought goods for cash	..	120
	22	Drew from Bank for office use	..	150
	23	Drew from Bank for private use	..	200
	24	Received for Cash Sales	..	170
	27	Received from Rangan Rs. 1,500 in full settlement of his account for	..	1,525
	31	Drew from Bank	..	1,000

(**Answer :** Cash Balance Rs. 2,950 ; Bank Balance Rs. 7,160)

XIX. Enter the following transactions in the Three Column Cash Book of Shri Prabhu as on 31st December, 1970 :

1970

Dec. 1 Cash at office Rs. 123, and Bank Balance (Cr.) Rs. 2,575.
1 Received for Cash Sales Rs. 1,570.
3 Deposited into Bank Rs. 1,500.
5 Natesh settled his account for Rs. 750 by giving a cheque for Rs. 730.
7 Cheque of Natesh is deposited into Bank.
10 Bought goods for Rs. 450 and paid by cheque.
13 Bought Stationery for Rs. 75.
18 Natesh's cheque returned dishonoured.
20 Received a cheque for Rs. 1,500 from Pandu which is deposited in to Bank
25 Withdrew for office use Rs. 475.
31 Paid Salary by cheque Rs. 1,000 and Rent in cash Rs. 150.

(**Answer :** Cash Balance Rs. 443 ; Bank Overdraft Rs. 1,500)

XX. Enter the following transactions in the Cash Book with Three Columns and balance the same as on 30th April, 1971 :

1971

April 1 Cash in hand Rs. 100 and Bank Overdraft Rs. 4,000.
Cash Sales Rs. 6,000.

2 Paid into Bank Rs. 6,000.

3 Received a cheque from Poyyamozhi Rs. 2,970 in full settlement of his account of Rs. 3,000.

5 Paid in to Bank the above cheque.

7 Drew for office use Rs. 500.

8 Paid Wages Rs. 150.

10 Paid to Balu by cheque Rs. 980 in full settlement of his account of Rs. 1,000.

12 Cash purchases of Stationery Rs. 50.

15 Drew from Bank for personal use Rs. 500.

22 Received for sale of old newspapers Rs. 100.

26 Received from Ranjan Rs. 1,475 and allowed him discount Rs. 25.

30 Paid Salaries by cheque Rs. 1,000
Paid into Bank all cash in excess of Rs. 200.

(Answer : Cash Balance Rs. 200 ; Bank Balance (Dr.) Rs. 3,765 and excess cash paid into Bank Rs. 1,775)

XXI. Enter the following transactions in a Cash Book with Cash Bank, and Discount columns. Balance theCash Book and bring down the balances :

1957				Rs.
Jan.	1	Cash Balance		350
	1	Bank Balance	..	2,450
	2	Cash received on Sale of Shares	..	4,000
	3	Paid into Bank	..	3,150
	4	Paid to Alfred	..	750
		Discount allowed by him	..	25
	5	Paid Wages by cash	..	50
	6	Received from B. Balan	..	350
		Allowed him Discount	..	50
	12	Sold goods for cash	..	510

1957			Rs.
Jan. 15	Bought goods for cash	..	1,000
18	Cash withdrawn for personal expenses	..	200
20	Paid into Bank	..	500
22	Received from C. Charles	..	1,250
	Allowed him discount	..	60
25	Paid Cheque for Cash Purchases	..	350
28	Drew cheque for office use	..	200
31	Paid cheque for Office Rent	..	80

(Answer : Cash Balance Rs. 1,010
Bank Balance Rs. 5,476)

XXII. Enter the following transactions in Ganesan's Cash with columns for Cash, Bank and Discount:

1965

Jan. 1 Balance of Cash on hand Rs. 200 and at Bank Rs. 1,800.

3 Received Rs. 800 from Gopalan in cash ;
Allowed him discount of Rs. 20 ;
Paid Rs. 500 into Bank.

4 Cash Sales Rs. 600.

5 Paid Salaries by cheque Rs. 800.

6 Repairs of Typewriters Rs. 300.

8 Paid Rs. 600 to Modern Co , half cash and half in cheque.

9 Withdrew Rs. 200 from Bank.
Paid Packing Charges Rs. 30.

10 Sold goods for cash Rs. 2,800 and paid half the proceeds in to Bank.

(Answer : Cash Balance Rs., 2,070 ;
Bank Balance Rs. 2,400)

XXIII. Write out a Cash Book with Discount, Cash and Bank columns and post them to the Ledger :

1959

Jan. 1 Commenced business with Rs. 5,000

2 Paid into Bank Rs. 4,000.

3 Purchased goods and paid by cheque Rs. 1,000.

4 Paid for Advertising Rs. 100.

6 Bought Furniture and paid by cheque Rs. 100.

8 Cash Sales Rs. 500.

9 Received cheque for Rs. 1,000 from B. Bhaskar and allowed him Discount. Rs. 20.
10 Gave Manohar a cheque for Rs. 800 and was allowed a discount of Rs. 15.
14 Paid into Bank Rs. 1,000.
15 Sent Rs. 60 by Money Order to Arumugam ; Money Order Commission paid Rs. 1.50.
20 Drew for office use Rs. 100.
22 Received from Madhavan by Money Order Rs. 85.
25 Received from Raman a currency note for Rs. 100 and gave him change for it.
30 Withdrew by cheque for personal use Rs. 65.

(**Answer :** Cash Balance Rs. 1,523.50 ; Bank Balance Rs. 2,935)

XXIV. From the following transactions write up the Cash Book with Three Columns and bring down the balances ;

1963			Rs.
Oct.	1	Cash Balance ..	200
		Bank Balance ..	800
	3	Received a cheque for Rs. 585 from Raman (Allowing him a discount of Rs. 15)	
	5	Paid Lakshmanan a cheque for Rs. 390 (Discount allowed by him Rs. 10)	
	6	Cash Sales Rs. 50 ; Received cash from Krishnan ...	150
	12	Paid Balan Rs. 100 in cash	
	15	Withdrew cash from Bank ..	200
	19	Purchased an Almirah for Rs. 225 cash paid	
	22	Received cash from Rangan .. (Discount allowed to him Rs. 10)	290
	25	Paid Venkatesh Rs. 95 by cheque (Discount allowed by him Rs. 5)	
	26	Cash remitted into Bank	200
	28	Deepawali Advance to Staff drawn from Bank and paid ..	200
	30	Salary for Staff paid by cash Rs. 225. Salary of Manager paid by cheque Rs. 150.	

(**Answer :** Cash Balance Rs. 725 ; Bank Overdraft Rs. 35)

CHAPTER XI

PETTY CASH BOOK

In large business concerns, the cashier's time should be spared to maintain the Cash Book properly. He should not be burdened with transactions involving small amounts of sundry expenditure—for example, small Postage expenses, Taxi charges, Refreshment expenses, Carriage expenses etc. These and other petty expenses should not go into the Cash Book wasting the time and space. Still they have to be taken care of and properly accounted for.

Therefore in many business concerns a person known as **Petty** Cashier *is appointed; he is* given an Account Book called **Petty** Cash *Book. At the beginning of each month*, a fixed amount is placed in his hands to meet the sundry expenditure. At the end of the month, he is to submit the monthly account to the Cashier and draw from him the necessary amount for next month's expenditure.

Imprest System

The Petty Cashier makes an estimate of the probable expenditure for one month and gets usually a cheque from the Cashier for that amount. This amount is known as **Imprest amount**.

The cheque is encashed and coins and small denomination currency notes are kept ready by the Petty Cashier. At the end of the month, the Petty Cash Book is produced before the Cashier for examination. The Cashier reimburses the actual expenditure of the previous month by issuing a fresh cheque.

Suppose on 1st January the Petty Cashier receives a cheque for Rs. 200. He spends during the months Rs. 187.50. On 1st February he will be given a cheque for the actual expenditure incurred during January i.e. Rs. 187.50, so that on 1st February, he will again have Rs. 200 the original amount, i.e., the Imprest Amount.

In case the Imprest Amount gets exhausted even before the month end by meeting unforeseen expenditure, then the Petty Cashier presents the accounts and gets fresh advance to meet the expenditure for the remaining period.

Advantages of Imprest System

(1) The Chief Cashier is relieved of the tiresome duty of maintaining record for petty disbursements. He can concentrate on the more important work of properly maintaining the Cash Book.

(2) The Cash Book also is not stuffed with small items which are not going to have any serious impact on the business.

(3) The possibility of errors creeping in, when small items are recorded is also avoided.

(4) Petty Cashier, apart from keeping Petty Cash, becomes an expert in looking after minor matters of office management.

(5) Complete control on Sundry Expenses is exercised lest such expenses may eat away a part of the profit.

(6) Sundry Expenditure can be easily and conveniently paid in cash without bothering the Cashier.

Columnar Petty Cash Book or Analytical Petty Cash Book

As the very title suggests, the Petty Cash Book contains many columns so that the expenditure is analysed. Such analysis will help us in identifying the type of expenditure on which some check could be exercised. It also throws light on the sundry expenditure pattern in a business concern.

Illustration No. 1

A Petty Cash Book is kept on Imprest System, the amount of the Imprest being Rs. 50 and has six analysis columns for 'Postage', 'Stationery', 'Travelling expenses', 'Repairs', 'Office Expeses' and 'Ledger Accounts'.

Enter the following:

				Rs.	P.
May	1	Petty Cash in hand	..	9	72
		Received cash to make up Imprest	..	40	28
	7	Bought Stamps	..	4	75
	9	Paid Railway fare	..	7	25
		Paid Bus fare	..	1	05
	12	Paid to Chandran	..	17	50
	18	Paid Jutka Charges	..	2	10
		Paid Railway fare	..	3	25
	25	Paid for Repairs to Typewriters	..	2	90
	25	Paid for Staionery	..	1	75
	31	Paid Office Expenses	..	4	50

SOLUTION

ANALYTICAL PETTY CASH BOOK

Dr. **Cr.** ***Analysis of Payments***

Amount Received Rs	P.	C.B. Fol.	Date	Particulars	Voucher No.	Total Payments Rs.	P.	Postage Rs.	P.	Stationery Rs.	P.	Travelling Expenses Rs.	P.	Repairs Rs.	P.	Office Expenses Rs.	P.	L.F.	Ledger Account Rs.	P.
9	72	..	May 1	To Balance b/d	..		..		..		..		..		..		..	..		..
40	28	41	1	,, Cash A/c	..		..		..		..		..		..		..	..		..
			7	By Postage stamps	8	4	75	4	75		..		..		..		..	..		..
			9	,, Railway fare	9	7	25		..		..	7	25		..		..	..		..
			9	,, Bus fare	10	1	05		..		..	1	05		..		..	..		..
			12	By Chandran	11	17	50		..		..		..		..		..	97	17	50

ANALYTICAL PETTY CASH BOOK—(*Contd.*)

		18	„ Jutka charges	12	2 10	..	..	2 10	..	..	..	..
		18	„ Railway fare	13	3 25	..	..	3 25	..	..	..	..
		25	„ Repairs to Typewriters	14	2 90	..	..	..	2 90	..	..	..
		25	„ Stationery	15	1 75	..	1 75	..	..	..	..	..
		31	„ Office expenses	16	4 50	..	..	..	..	4 50	..	..
			Total payments	..	45 05	4 75	1 75	13 65	2 90	4 50		17 50
		31	By Balance c/d		4 95	Fol. 9	Fol. 11	Fol. 13	Fol. 17	Fol. 19		..
50 00			Grand Total ..		50 00							
4 95	..	June 1	To Balance b/d									
45 05	..		„ Cash									

SOLUTION

Posting of Petty Cash Book

Receipts side : Apart from the Opening Balance, there is only one entry in the receipt side of the Petty Cash book. It is already entered in the Cash Book when the Cashier hands over a cheque for Rs. 40.28 to Petty Cashier. No further posting is necessary.

Payments side : i. e., Expenditure side.

There are six columns and six heads of Expenditure. Terefore in the Ledger, the following six Accounts are opened :

Postage Account.
Stationery Account.
Travelling Expenses Account.
Repairs Account.
Office Expenses Account.
Chandran's Account.

All the six Accounts will be debited as given below :

LEDGER

Dr.	*Postage Account*		Cr.
		Rs. P.	
July 31	To Petty Cash A/c	4 75	

Dr.	*Stationery Account*		Cr.
		Rs. P.	
July 31	To Petty Cash A/c	1 75	

Dr.	*Travelling expenses Account*		Cr.
		Rs. P.	
July 31	To Petty Cash A/c	13 65	

Dr.	*Repairs Account*		Cr.
		Rs. P.	
July 31	To Petty Cash A/c	2 90	

Dr.		*Office Expenses Account*		*Cr.*
		Rs.	P.	
July 31	To Petty Cash A/c	4	50	

Dr.		*Chandran Account*		*Cr.*
		Rs.	P.	
July 31	To Petty Cash A/c	17	50	

Illustration No. 2

Enter the following transactions in the Petty Cash Book of Manohar with appropriate analysis columns. Show the amount which would be paid to the Petty Cashier under Imprest System after the book is balanced on October 31 :

			Rs.	P.
October	1	Handed over to the Petty Cashier an Imprest amount of Rs. 100		
	1	Bought Postage Stamps ..	5	75
	2	Paid Travelling Expenses ..	7	25
		Paid for Stationery .	9	27
	4	Paid for Office Cleaning	1	33
	5	Paid for Carriage ..	1	50
	9	Paid Travelling Expenses ..	10	55
	13	Paid for Postage Stamps ..	8	40
	15	Paid for Carriage ..	2	25
	18	Gave Tea to visitors ..	0	60
	21	Paid for Telegram ..	1	20
	22	Paid for Carriage ..	4	40
	25	Bought Office Stationery ..	13	70
	26	Bought Postage Stamps ..	3	95
	28	Paid for Door Cleaning ..	1	40
	29	Paid for Printing ..	15	00
	30	Paid to Raman on account ..	7	90
	31	Gave Tips to office peons ..	1	40
		Gave Charity to beggars ..	0	20

SOLUTION

ANALYTICAL PETTY CASH BOOK OF THIRU MANOHAR

Dr. *Cr.* *Analysis of Payments*

Date	*Particulars*	*C.B.F. No.*	*Amount*	*Date*	*Particulars*	*Voucher No.*	*Total Amount*	*Postage and Telegram*	*Printing and Stationery*	*Travelling Expenses*	*Carriage and Cartage*	*Cleaning*	*L.F.*	*Ledger A/c.*	*Sundries*	*Remarks*
			Rs. P.				Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.		Rs. P.	Rs. P.	
May 1	To Cash A/c	10	100 —	May 1	By Postage Stamps A/c	1	5 75	5 75	..	.	..	..		..	.	..
				2	,, Stationery A/c	2	9 27	..	9 27	..	..	..		..	..	..
					,, Travelling Expenses A/c	3	7 25	..	..	7 25	..	..		..	.	..
				4	,, Office Cleaning A/c	4	1 33	..	..	..	..	1 33		..	..	..

ANALYTICAL PETTY CASH BOOK OF THIRU MANOHAR—(*Contd.*)

			5	By Carriage A/c	5	1 50	..	..	..	1 50	..		..	..	..
			9	„ Travelling Expenses A/c	6	10 55	..	..	10 55	..	..		..	..	..
			13	„ Postage Stamps A/c	7	8 40	8 40	..	..	..	..		..	..	..
			15	„ Cartage A/c	8	2 25	..	..	..	2 25	..		..	..	..
			18	„ Tea to visitors A/c	9	– 60	..	..	..	..	..		..	– 60	*
			21	„ Telegrams A/c	10	1 20	1 20	..	..	..	..		..	..	..
			22	„ Carriage A/c	11	4 40	..	..	..	4 40	..		..	..	..
			25	„ Office stationery A/c	12	13 70	..	13 70	..	..	..		..	..	..
			26	„ Postage Stamps A/c	13	3 95	3 95	..	..	..	..		..	..	..
			28	„ Window cleaning A/c	14	1 40	..	..	..	..	1 40		..	..	..

* Entertainment Expenses account.

ANALYTICAL PETTY CASH BOOK OF THIRU MANOHAR—(*Contd.*)

		Rs. P.				Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.	Rs. P.		Rs. P.	Rs. P.	
			May 29	By Printing A/c	15	15 —	..	15 —	..	..	..		..	..	..
			30	,, Raman A/c	16	7 90	..	..	..	..	..	45	7 90	..	..
			31	,, Tips to Peons A/c	17	1 40	..	..	..	..	..		..	1 40	**
			31	,, Charity to beggars A/c	18	– 20	..	..	..	..	..		..	– 20	**
				Total Payments		96 05	19 30	37 97	17 80	8 15	2 73		7 90	2 20	..
				By Balance b/d		3 95									
		100 00		Total		100 00									

** Miscellaneous Expenses Account

ANALYTICAL PETTY CASH BOOK OF THIRU MANOHAR—(*Contd*)

Date	*Particulars*	*C.B.F. No.*	*Amount*
			Rs. P
June 1	To Balance b/d		3 95
	To Cash A/c		96 05

QUESTIONS

OBJECTIVE TYPE

I. *Fill in the blanks :*

(*a*) The book that records all small payments is called———

(*b*) The balance in Petty Cash Book is——————.
(asset, liability, income.)

(*c*) The person who maintains Petty Cash Book is known as ———.

(Answer : *a.* Petty Cash Book ; *b.* Asset ; *c.* Petty Cashier.)

II. *Match the following .*

(1)	Maintaining fixed amount in the beginning of every month.	(1)	Ledger Accounts.
(2)	All receipts and payments of cash.	(2)	Cash book
(3)	Amount paid by Petty Cashier to a customer will be entered in the column known as	(3)	Imprest System

(Answer : 1-3; 2-2; 3-1.)

III. *State wheather the following are True or False*

(*a*) Petty Cash Book is for receipt of small amounts.

(*b*) Petty Cashier is allowed to pay only small amounts.

(Answer : *a.* false ; *b.* true.)

IV *Indicate the alternative which you consider to be correct:*

Petty Cash may be used to pay :

(1) Salaries to Managers.

(2) The purchase price of Furniture and Fittings

(3) The expenses relating to Postage and Conveyance.

(Answer : 3)

OTHER QUESTIONS

I. What is Petty Cash? What is the need for it?

II. Explain the Imprest System of Petty Cash. What are its advantages?

III. Give a specimen of Columnar Petty Cash Book.

IV. Write up a Petty Cash Book from the following transactions

1974				Rs.	P.
June	1	Balance on hand	..	15	00
		Received a cheque to make the Imprest Amount	..	85	00
	3	Postage	..	10	00
	4	Packing Charges	..	12	00
	8	Railway Frieght	..	17	00
	9	Stationary Items	..	10	00
	10	Sundry Expenses	..	6	00
	13	Repairs to Furniture	..	10	00
	15	Telegram Charges	..	3	00
	19	Tips to servants	..	2	00
	20	Printing Charges	..	10	00
	22	Postal Charges	..	3	00
	25	Carriage	..	5	00
	29	Printing of Greeting Cards	..	6	00
	30	Postage & Telegrams	..	3	00

(Answer : Balance b/d. Rs. 3.00)

V. Enter the following transactions in an Analytical Petty Cash Book :

1972			Rs.	P.
Jan. 1	Received a cheque of Rs. 60 from the cashier for petty disbursements			
3	Paid for Printing	..	6	50
	Paid for Sundry expenses	..	3	25
4	Bought Postal Ltamps	..	4	80
6	Paid for Office cleaning	..	2	50
8	Cartage and Carriage paid	..	2	75
11	Paid for Postage	..	1	50
15	Bought Stationery	..	5	00
18	Paid for Carriage	..	1	25
23	Paid for Sundry Expenses	..	4	20
24	Paid Railway Freight	..	4	75
27	Spent for Telegram	..	2	10
28	Telephone Charges	..	3	20
31	Paid to Amanullah	..	12	50
"	Paid for Office Expenses	..	2	50

(Answer : Balance Rs. 3.20)

VI. Rule a Columnar Petty Cash Book and enter there in the following transactions :

March 1 Received from the Cashier Rs. 35.

4 Paid for Stationery Rs. 4; for Postage Rs. 2; for Carriage Rs. 3.75.

5 Paid for Office Expenses Rs. 2.50; Cartage Rs. 1.50; Telephone Charges Rs. 3.30

6 Paid for Window Cleaning Rs. 2.25; for Stationery Rs. 3.50; Postage Rs. 2.

7 Paid Sundry Wages Rs. 3.75; to Office Peon Rs. 2 and Bus fare Rs. 1.50.

(Answer : Balance Rs. 2.95)

VII. Record the following transactions in an Analytical Petty Cash Book and balance the same. On 1st April 1963 the Petty Cashier started with Imprest Cash of Rs. 100.

			Rs.	P.
April	1	Postage Stamps purchased	5	00
	2	Sweeper and scavenger paid	5	00
	5	Conveyance to Manager	2	00
	6	Telegram to Bombay	1	00
	7	Stationery purchased	5	00
	10	Lorry hire for goods sent	15	00
	11	Greeting Cards purchased	5	00
	13	Carriage & Cooly on goods bought	7	00
	17	Salary to Office boy ..	15	00
	18	Repairs to Cycles ..	9	00
	19	Servicing charges to Typewriters	6	00
	22	Ink & Gum purchased ..	3	00
	24	Advertisement charge ..	8	00
	27	Subscription paid to *The Hindu & The Mail* ..	7	00
	28	Tea to customers ..	3	00

(**Answer : Balance Rs. 4.00**)

VIII. Enter the following petty transactions in the Analytical Petty Cash Book of Sivaprakasam :

			Rs.	P.
June	1	Balance in hand ..	3	75
		Received from the Cashier ..	46	25
	4	Bought Stationery ..	11	20
	5	Paid Electricity Charges ..	13	82
		Paid for printing of letter pads ..	7	17
	7	Bought Postage Stamps etc. ..	2	30
		Paid to an Electrician for Repairs ..	1	80
	9	Sent Telegram to a supplier	1	40
	12	Office Cleaning Expenses paid ..	3	20
	14	Paid for Repairs to Typewriter ..	1	35
	15	General expenses ..	2	56

(**Answer: Balance Rs. 5.20**)

CHAPTER XII

BANK RECONCILIATION STATEMENT

Banking Transactions of a firm

In the present context of commercial development, only petty shop keepers can afford to carry on their business without a Bank account. Even such traders would be ultimately benefited, if they open an account in a bank, because they get the facility of borrowing to expand their business. Thus a Bank Account mostly a current account is almost an indispensable adjunct to a business concern whether it is engaged in manufacture or trade or transport.

Businessmen reap the following advantages when they maintain a Bank Account :

Advantages

(1) *Safety :* Surplus money can be safely and conveniently deposited and can be withdrawn whenever required.

(2) *Income :* Idle funds will earn a moderate return in the shape of interest if the account happens to be a Savings Account (Interest on Current Account balance is meagre).

(3) *Evidence :* Payment to creditors or for purchases can be done through cheque. Counterfoil of cheques will be a very good evidence of payment. There are occasions when a trader cannot obtain receipt for his payment. Similarly he has to pay to parties living in far off places. In such cases it is safer and wiser to pay by cheques.

(4) *Collection :* Similarly cheques given by customers can be encashed by sending them for collection and credit in the Bank Account. In the absence of a Bank Account, the trader has to discourage his customers from making payments in cheques.

(5) *Remittance Cost :* Of all the means of payment to parties living in different places, the payment by cheque is the least expensive.

(6) *Local Cheque*. Even to those persons living in his own business place, a trader can make payment by cheque. Collection of local cheques usually costs nothing.

(7) *Prestige*: The keeping of a Bank account lends prestige to a business concern. It is an indication that the firm is not of a mushroom growth; it is a firm of standing. Therefore firms in other places will not hesitate to keep business connections.

(8) *Bank Reference:* When a firm is keeping a Bank Account the Banker can give Bank Reference when enquiries are made. That will enable the firm to buy on credit from wholesalers or manufacturers.

(9) *Bank Services:* By opening an account, the firm becomes the customer of a Bank. As such it becomes eligible to enjoy all the Subsidiary and General Utility Services which modern banks offer in unlimited ways. E.g., Safe Custody Lockers, Transfer of Funds, Agency Services, Issue of Letter of Credit, Bank Guarantees etc., to mention just a few.

(10) *Credit facilities:* Above all, there is one great advantage which all business concerns welcome—the credit or loan facilities. Banks offer loans to customers. That is really their main business. So, businessmen can borrow from banks for the development of their trade provided they are customers of the bank.

Therefore it is of immense benefit, if a Bank account is maintained.

Transactions between the Firm and Banker

When a Bank account is opened, the Banker gives the firm a Pass Book, a Cheque Book and a Paying-in-Slip Book. While the Cheque Book is used to withdraw money. Paying-in-Slip Book is used to deposit money in the Bank. A Pass Book is a register where the amount deposited, amount withdrawn and the balance are recorded. Everytime a deposit is made or money is withdrawn by cheque, the Pass Book may be presented to the Banker who will make necessary entries in it. It will be kept safely by the customer. Thus it is passing between banker and customer. That is the reason, why it has been given the title 'Pass Book'.

DIFFERENCES BETWEEN BANK COLUMN OF THE CASH BOOK AND THE PASS BOOK

Cash Book Bank Column	Pass Book
(1) When deposits are made, they are entered in the Debit side of the Cash Book.	(1) The deposits are entered in the Credit side.
(2) Withdrawals from Bank are entered on the Credit side of the Cash book	(2) Withdrawals are entered in the Debit side.
(3) Cheques paid into Bank for collection are entered in the Debit side of Cash book on the date on which the cheques are sent	(3) Only after realisation the amount will be entered in the Credit side.
(4) When cheques are issued they are entered on the Credit side on the date of issue	(4) When those cheques are paid, entry will be passed in the Debit side on the date of payment.

Let us look at the pattern of Entries made in the Cash Book and Pass Book.

Transactions	*Entries by Customer in his Cash Book*	*Entries by Banker in the Pass Book*
1. When money is deposited	The Firm debits the Bank Account	Banker credits the entry in the Pass Book
2. When a Cheque is issued.	The Firm Credits the Bank Account. In such circumstances, the Pass Book will not show the same balance as Cash Book. It will show a higher Credit Balance; the Cash Book will show a lesser debit balance.	The account will be debited only on the day when the cheque is presented to the Banker and paid. The customer, to whom the cheque is issued, may not encash it at once. (Law allows 6 months time to encash acheque). So, the account will be debited only on the date of payment.

Transactions	*Entries by Customer in his Cash Book*	*Entries by Banker in the Pass Book*
3. Cheques received and sent for collection and credit in the Bank A/c.	The Firm debits the Bank A/c. In such cases Pass Book Balance will be lesser than Cash Book Balance.	**(*a*) Collection will take some time. When it is collected, the Banker will credit our account.**
4. Bank charges **(When the Bank renders some service on our behalf, it charges some amount on us.)**	No entry is made in the Cash Book. On securing the Pass Book or on receipt of the statement for Bank charges, it is credited. Pass Book Balance will be lesser than the Cash Book Balance.	**Bank Charges debited will decrease the Bank Balance.**
5. Direct Payment by a customer in the Bank A/c.	Firm is not aware of this. Therefore no entry is made in the Cash Book till we see the Pass Book. **Pass Book Balance will be higher.**	Will be credited.

Transactions	*Entries by Customer in his Cash Book*	***Entries by Banker in the Pass Book***
6. Collections of Rent, Dividend etc. by Banker, on our behalf.	There will be no Entry, till the Pass Book is seen. Pass Book will show a higher balance.	Bank will enter first; will be credited in the account.
7. Payment made by Banker on behalf of customer on standing instructions, for Rent, Insurance Premium, etc.	There will be no Entry till we see the Pass Book. Hence disagreement between Pass Book and Cash Book balances.	Bank will enter first; will be debited in the account.
8. When the Bank allows interest	There will be no entry in the Cash Book till we see the Pass Book Pass Book will show a higher balance	Bank will enter first; will be credited in the account

Thus we find that on a given date, the Pass Book and Cash Book rarely show the same balance. Theoretically, the two balances must agree. But because of the time lag in recording the transactions and other reasons, the two balances will not agree.

NEED FOR BANK RECONCILIATION STATEMENT

During month ends, when the Cash Book entries are scrutinised by the Proprietor or General Manager or Auditor, it is quite necessary to prepare a statement showing the causes for the disagreement between the Cash Book and the Pass Book balances. If the two balances luckily agree, there is no need for such a statement. But such agreement is a very rare occurrence. On *any given date*, if we compare the balances of the two books, we would, perhaps find only disagreement. The disagreement is caused the following transactions :

Let us assume that the Statement is prepared on 31-12-76.

(1) *Cheques issued by Customer* ; but

(*a*) not cashed till that date.

(*b*) not presented till that date.

(*c*) presented but dishonoured for some reason or other.

(*d*) lost by the party to whom the cheques were isssued.

(*e*) torn off carelessly by the party.

(*f*) stolen by someone.

(*g*) cashed but somebody's A/c, is wrongly debited by the Bank staff.

(*h*) cashed out of No. I A/c but wrongly debited to No. II A/c of the same customer.

(2) *Cheques paid into the Bank for collection and credit*, but

(*a*) not collected till that date.

(*b*) collected but the Bank's staff has forgotten to make entry.

(*c*) dishonoured by the Paying Banker.

(*d*) collected but credited to a wrong account.

(*e*) collected for No. I A/c but credited to No. II A/c of the same customer.

(3) *Cheques purported to be sent to the Bank for collection and credit*, but

(*a*) forgotten by the trader (customer) or his staff to send it to the Bank though necessary entry has been made in the Cash Book,

(*b*) did not reach the Bank as the trader's messenger who carried the cheque to the Bank ran away with the cheque.

(4) *Amount credited by the banker in the Pass Book without the immediate knowledge of the customer since*

(*a*) the bank might have collected Rent, Dividend, Bills of Exchange (Receivable,) Interest due to the customer as per standing orders.

(*b*) some of the debtors of the customer have directly paid into the Bank.

(*c*) Bank adds Interest on the credit balance of the customer.

(*d*) the Banker has wrongly credited this A/c instead of some other A/c.

(5) *Amount debited by Banker in the Pass Book without the immediate knowledge of the Customer :*

(*a*) The banker has entered the Bank Charges/Interest on Overdraft etc.

(*b*) The Banker has paid Insurance premia, Subscription for periodicals etc., on behalf of the customer as per his standing orders.

(*c*) The Banker has wrongly debited this A/c instead of some other account.

(*d*) The Banker has paid the Bills Payable or Pronote of the customer as per standing orders.

In all the above cases, there is bound to be a discrepancy between Cash Book Balance and Pass Book Balance.

HOW TO PREPARE A BANK RECONCILIATION STATEMENT

We start with either Cash Book Balance (whether it is to the credit of customer or Overdraft); make the necessary additions and deductions. We arrive at the Pass Book Balance.

(OR)

We start with the Pass Book Balance (whether it is to the credit of the customer or Overdraft); make the necessary additions and deductions and arrive at the Cash Book Balance.

Procedure for Bank Reconciliation :

MODEL I

BANK RECONCILIATION STATEMENT
OF MR...... ....
AS ON..................

	Rs.	Rs.
Balance as per Cash Book (favourable to customer—Debit Balance)		....
Add : (*a*) Cheques issued but not cashed till date due to any reason as given in point (1) above	....	
(*b*) Amount credited in Pass Book as given in point (4) above	....	
		....
Less : (*a*) Cheque paid in but not collected due to any reason as given in point (2) above	....	
(*b*) Cheque purported to be sent to Banker as given in point (3) above	....	
(*c*) Amount debited by banker in Pass Book as given in point (5) above	....	
		....
BALANCE AS PER PASS BOOK :	Rs.	....

MODEL II

BANK RECONCILIATION STATEMENT
AS ON..........

	Rs.	Rs.
Balance as per Pass Book........		....
Add : (*a*) Cheques paid into Bank, but not credited in Pass Book / not collected / dishonoured / credited to wrong A/c.	....	
(*b*) Payments made by Bank on standing orders.	....	
(*c*) Interest and Bank Charges Debited in Pass Book.	....	
		....
Less : (*a*) Cheques issued but not cashed / presented / dishonoured / cashed but debited to wrong A/c.	....	
(*b*) Amount collected by Bank on standing orders.	....	
(*c*) Direct payment by customer into Bank A/c.	....	
		....
BALANCE AS PER CASH BOOK Rs.		....

Illustration No. 1

On 31st December, 1948 your Pass Book showed a credit balance of Rs. 10,020. Before that date you had issued cheques amounting to Rs. 4,000 but they were not presented for payment. A cheque for Rs. 1,000 paid by you into the Bank was not credited. On 31st December, 1948 you had also received a cheque for Rs. 2,000 which, though entered by you in your Cash Book, was omitted to be paid into the Bank. Besides, to your credit, there was an entry of Rs. 150 for interest.

Draw up a Bank Reconciliation Statement showing adjustments betweeen your Cash Book and the Bank Pass Book.

Solution

BANK RECONCILIATION STATEMENT

as on 31st December, 1948.

		Rs.	Rs.
	Balance as per Pass Book ..		10,020
Add :	Cheque paid into Bank but not credited	1,000	
	Cheque received and entered in the Cash Book but omitted to be banked	2,000	
			3,000
			13,020
Less :	Cheques issued but not presented for payment so far ..	4,000	
	Interest credited in the Pass Book .	150	
			4,150
	Balance as per Cash Book		8,870

Illustration No. 2

On 31st March, 1962 the Cash Book of Mr. Subramaniam shows a Bank Overdraft of Rs. 15,500. On verification with the Bank Pass Book, it is observed that the adjustments regarding the following are to be made :

(*a*) Following cheques were not presented in the Bank before 31st March, 1962 :

(i) Ramachandran	..	Rs. 400
(ii) Krishnamurthy	..	Rs. 250
(iii) Somasundaram	..	Rs. 125
(iv) Rasheed	..	Rs. 225
and (v) Michael	..	Rs. 150

(*b*) Cheques sent in for collection were not credited in the Bank before 31st March, 1962.

(i) Gopalan	..	Rs. 250
(ii) Kannan	..	Rs. 300
(iii) Shanmugam	..	Rs. 175
and (iv) Thomas	..	Rs. 125

(*c*) Mr. Natesan has paid into Bank directly a sum of Rs. 300 on 28th March which has not been entered in Cash Book.

(*d*) The Bank has charged Rs. 10 towards Incidental Charges and Rs. 250 towards Interest on Overdraft on 31st March, 1962.

(*e*) A cheque received from Padmanabhan for Rs. 500 taken in Cash Book on 31st March, but remitted in Bank on 2nd April, 1962.

Prepare a Bank Reconciliation Statement and find out the Bank Overdraft as shown by the Bank Pass Book.

Solution

IN THE BOOKS OF SUBRAMANIAM

BANK RECONCILIATION STATEMENT

As on 31st March, 1962

			Rs.	Rs.
	Overdraft as per Cash Book	..		15,500
Add:	Cheques sent in for collection and not credited in the Bank before 31st March, 1962:			
	Gopalan	..	250	
	Kannan	..	300	
	Shanmugam	..	175	
	Thomas	..	125	
	Incidental Charges debited by the Banker in the Pass Book	..	10	
	Interest on Overdraft debited by the Banker in the Pass Book	..	250	
	Cheque received from Padmanabhan on 31st March but deposited in Bank on 2nd April	..	500	1,610
				17,110
Less:	Cheques issued but not presented before 31st March, 1962:			
	Ramachandran	..	400	
	Krishnamurthy	..	250	
	Somasundaram	..	125	
	Rasheed	..	225	
	Michael	..	150	
	Direct payment by Mr. Natesan into the Bank Account	..	300	
				1,450
	Overdraft as per Pass Book	..		15,660

Illustration No. 3

From the following particulars ascertain the balance that would appear in the Bank Pass Book of *A* on 31st December, 1972:

(1) The Bank Overdraft as per Cash Book on 31st December, 1972, Rs. 8,340.

(2) Interest on Overdraft for 6 months ending 31st December, 1972, Rs 160 is entered in the Pass Book.

(3) Bank Charges of Rs. 30 for the above period are debited in the Pass Book.

(4) Cheque issued but not cashed prior to 31st December, 1972, amounted to Rs. 1,468.

(5) Cheques paid into Bank but not cleared before 31st December, 1972, were for Rs. 2,280.

(6) Interest on Investments collected by the Bank and credited in the Pass Book Rs. 1,300.

Solution

BANK RECONCILIATION STATEMENT
as on 31st December, 1972

		Rs.	Rs.
	Overdraft as per Cash Book ..		8,340
Add:	Interest debited in Pass Book but not entered in Cash Book ..	160	
	Bank Charges debited in Pass Book but not yet entered in Cash Book ..	30	
	Cheques paid in but not yet credited by Bank ..	2,280	
			2,470
			10,810
Less:	Cheques issued but not yet presented ..	1,468	
	Interest collected and credited by Bank but not yet entered in Cash Book .	1,300	
			2,768
	Overdraft as per Pass Book ..		8,042

Illustration No. 4

From the following particulars ascertain the Balance that would appear in the Pass Book of Mr. Rajalingam as on 31st December, 1970 :

(1) The Cash Book showed a credit balance of Rs. 18,500.

(2) Out of the cheques worth Rs. 30,000 issued prior to this date, it was found that the Bank had paid only cheques worth Rs. 14,500.

(3) There was also a credit in Pass Book for an amount paid by our customer direct into the Bank Rs. 11,610.

(4) The Bank had also collected the Bill for Rs. 8,200 which fell due on 31-12-1970.

(5) Rs. 950 in respect of a cheque paid in but dishonoured appear in the Pass Book only.

(6) Cheques paid in before 31-12-1970 amounted to Rs. 23,000 but the bank had collected and credited cheques worth Rs. 9,000.

(7) Interest on Investments collected by Bank and credited in the Pass Book amounts to Rs. 95.

(8) There was an entry on the Debit side in the Pass Book for Bank charges Rs. 25.

Solution

BANK RECONCILIATION STATEMENT OF MR. RAJALINGAM
as on 31st December, 1970

		Rs.	Rs.
	Bank Overdraft as per Cash Book ..		18,500
Add :	Cheques paid in but not cashed and credited ..	14,000	
	Dishonoured cheques ..	950	
	Bank Charges ..	25	
			14,975
			33,475
Less :	Cheques issued but not presented for payment ..	15,500	
	Amount paid by our customer direct into Bank ..	11,610	
	Bill collected by Bank ..	8,200	
	Interest on Investment collected by Bank ..	95	
			35,405
	Bank Balance as per Pass Book ..		1,930

Illustration No. 5

From the following particulars, prepare a Bank Reconciliation Statement of Mr. Adaikalaswamy:

(1) Overdraft as per Pass Book on March 31, 1959 was Rs. 12,900. (2) Cheques issued before that date but presented for payment after that date amounted to Rs. 1,200. (3) Cheques paid into the Bank but not cleared and credited before 31-3-1959 amounted to Rs. 3,200. (4) Interest on Overdraft amounting to Rs. 175 debited in the Pass Book but not entered in the Cash Book. (5) Interest on Investments amounting to Rs. 700 was collected by the Bank and credited in the Pass Book but not entered in the Cash Book. (6) Bank Charges Rs. 22 not entered in the Cash Book. (7) Rs. 950 in respect of a dishonoured cheque entered in the Pass Book but not in the Cash Book.

Solution

BANK RECONCILIATION STATEMENT OF
MR. ADAIKALASWAMY
as on March 31, 1959

		Rs.	Rs.
	Overdraft as per Pass Book ..		12,900
Add:	Cheques issued but not presented for payment ..	1,200	
	Interest on Investments ..	700	
			1,900
			14,800
Less:	Cheques paid in but not cleared ..	3,200	
	Interest on Overdraft ..	175	
	Bank Charges ..	22	
	Dishonoured cheque ..	950	
			4,347
	Overdraft as per Cash Book ..		10,453

Illustration No. 6

From the following details make out a Reconciliation Statement of M/s. Mohideen & Co., on 31 December 1976, relating to No. 1 Account :

(1) Balance as per Pass Book—Overdraft Rs. 10,000 on 31-12-76.

(2) Out of cheques of Rs. 6000 issued on No. 1 account prior to this date,

(*a*) a cheque for Rs. 700 was dishonoured.

(*b*) a cheque for Rs. 800 was reported as lost.

(*c*) a cheque for Rs. 900 was torn off.

(*d*) a cheque for Rs. 1,000 was cashed but the Banker has entered it wrongly in the A/c of another customer.

(*e*) a cheque for Rs. 1,200 was paid out of No. II A/c.

(*f*) other cheques have been presented.

(3) Out of cheques of Rs. 7,000 sent to bank for collection,

(*a*) a cheque for Rs. 1,400 was dishonoured.

(*b*) a cheque for Rs. 1,500 did not reach the Bank as Mr. Mohideen's peon has absconded with the cheque.

(*c*) a cheque for Rs. 1,600 though collected, was credited wrongly to some other Account.

(*d*) a cheque for Rs. 400 was lying with the Bank as the Bank staff had been careless and not collected it in time.

(*e*) a cheque for Rs. 500 was collected but Bank has wrongly entered the amount twice.

(*f*) other cheques have been collected and credited.

(4) Interest on Overdraft of Rs. 250 and Bank Charges of Rs. 150 were entered in the Pass Book.

(5) Bank has collected Dividends of Rs. 1,900 and entered in Pass Book only.

(6) Bank has paid Mr. Mohideen's Subscription of Rs. 750 and Insurance Premium of Rs. 650.

Solution

BANK RECONCILIATION STATEMENT OF
M/S MOHIDEEN & COMPANY
as on 31 December, 1976

		Rs.	Rs.
	Balance as per Pass Book (Overdraft) ..		10,000
Add:	(*a*) Cheques issued but not presented or cashed due to a variety of reasons: 700 + 800 + 900 = ..	2,400	
	(*b*) Cheque issued and cashed but wrongly entered in the A/c of some other customer ..	1,000	
	(*c*) Cheque paid out of No. II A/c.	1,200	
	(*d*) Cheque collected & entered twice .	500	
	(*e*) Collections by Banker not yet entered in Cash Book ..	1,900	7,000
			17,000
Less.	(*a*) Cheques sent to Bank but not collected due to a variety of reasons: 1400 + 1,500 + 400 ..	3,300	
	(*b*) Cheque collected but wrongly entered in theA /c of some other person ..	1,600	
	(*c*) Interest on O/D and Bank Charges not yet entered in the Cash Book: 250 + 150 ..	400	
	(*d*) Payments by Bank on behalf of Mr Mohideen not informed to Mohideen & Co: 750 + 650 ..	1,400	6,700
	Balance as per Cash Book (Overdraft)..		10,300

QUESTIONS
OBJECTIVE TYPE

I. *State the alternative which you consider to be correct :*

(*a*) Bank Reconciliation Statement is a
  (1) Ledger Account.
  (2) Separate Statement.
  (3) Part of Cash Book with Bank Column.

(*b*) The Pass Book of the account holder is a copy of
  1. The Bank columns in the Cash Book of the Account holder.
  2. The relevant Account in the books of a Bank.
  3. The Cash columns in the Cash Book of the customer.

(**Answer :** *a*. 2. *b*. 2.)

II. *Indicate whether the following are True or False :*

(*a*) A Bank Reconciliation Statement is prepared to ascertain the causes for the difference in the Cash columns of the Cash Book and the Bank columns.

(*b*) Bank Reconciliation Statement is prepared to know the difference in balances between Cash Book and Pass Book.

(*c*) Bank Charges will be entered by the customer in Cash Book first.

(*d*) All payments of cash to the customer are entered on the debit side of the Pass Book.

(**Answer :** *a* and *c* : False. *b* and *d* : True.)

III. *Fill in the blanks with suitable words :*

(*a*) Pass Book is maintained by the ———— and Cash Book is maintained by the ————

(*b*) All payments of cash into the Bank are entered on the ———— side of the Simple Cash Book.

(*c*) Cheques received from the customer are ———— in the Pass Book after realisation.

(*d*) Cheques issued to the creditors are entered on the ———— side of the Cash Book.

(*e*) Wrong ———— in the Pass Book will increase the balance of the customer with Bank.

(**Answer :** *a :* Banker, customer ; *b :* credit ; *c :* credited ; *d :* credit ; *e ;* credit.)

OTHER QUESTIONS

I. What is a Bank Reconciliation Statement? **State the various points because of which the balance of Pass Book may not agree with that of Cash Book.**

II. From the following particulars ascertain the Bank Balance as per Pass Book on December 31, 1972:

(1) The Balance as per Cash Book on that date was Rs. 11,500.

(2) Cheques issued but not cashed before that date amounted to Rs. 1,750.

(3) Cheques paid into Bank, but not cleared before December 31, 1972 amounted to Rs. 2,150.

(4) Interest on Investments collected by the Bank but not entered in the Cash Book amounted to Rs. 275.

(5) Local cheques paid in but not entered in the Cash Book Rs. 300.

(6) Bank Charges debited in the Pass Book Rs. 25.

(**Answer :** Balance as per Pass Book Rs. 11,650)

III The Cash Book of Guhan showed that he had an Overdraft of Rs. 8,000 on 31st October, 1973. On verification of the Cash Book and the Bank Pass Book the following points were noticed :

(1) Cheques worth Rs. 1,400 paid into the Bank had not been collected till 31st October.

(2) Cheques worth Rs. 720 issued before 31st October had not been presented for payment.

(3) Interest on Overdraft Rs. 110 charged by the Bank was not entered in the Cash Book.

(4) A Bill Receivable worth Rs. 800 discounted on 1st September was dishonoured.

(5) A customer had paid into the Bank direct Rs. 450 and this was not entered in the Cash Book.

Prepare a Bank Reconciliation Statement as on 31-10-73.

(**Answer :** Rs. 9,140 O/D).

V On 31st March, 1964, the Bank Pass Book of Sri Palaniappan shows a Bank Balance of Rs 3,850, While verifying with the Cash Book, it is seen that the following adjustments are required :

(1) Cheques sent in for collection before 31-3-1964 and not credited by Bank :

(*a*) Venkatesan	..	Rs. 250
(*b*) Murali		Rs. 200
(*c*) Arumugam		Rs. 120
(*d*) Natarajan	..	Rs. 275

(2) Cheques issued before 31-3-1964 but not presented to the bank :

(*a*) Raman	.	Rs. 325
(*b*) John	..	Rs. 175
(*c*) Somasundaram	..	Rs. 235
(*d*) Ibrahim	..	Rs. 150

(3) The Banker has charged a sum of Rs. 10 towards Incidental Charges and credited Interest of Rs. 25.

(4) The Banker has given a wrong credit for Rs. 250.

(5) A cheque for Rs. 200 sent for collection and returned unpaid has not been entered in the Cash Book.

Prepare a Bank Reconciliation Statement and find out the Bank Balance shown by the Cash Book as on 31 March, 1964.

(Answer : Rs. 3,745)

V. S. Sarma's Pass Book shows a balance of Cash at Bank Rs 2,500 on 31st December, 1956. His Cash Book shows a different balance. Upon examination it was found that :

(*a*) No record has been made in the Cash Book of the dishonour of a cheque of Rs. 50 issued by us.

(*b*) Cash and cheques amounting to Rs. 350 were paid into a Branch Bank on 28th December 1956 and the same had not been entered in the Pass Book.

(*c*) Bank Charges Rs. 5.50 have not been entered in the Cash Book.

(*d*) Cheque amounting to Rs. 900 issued by Mr. Damodar and paid into Bank on 28th December, 1956 had not been credited.

Prepare the Reconciliation Statement as on 31 December, 1956.

(**Answer :** Balance as per Cash Book Rs. 3,805.50)

VI. On 31st December 1950, the Bank Pass Book of Sumitra showed a Bank Overdraft of Rs. 10,700. From the following particulars, prepare a Bank Reconciliation Statement :

(*a*) Cheques issued before 31-12-50 but presented for payment after that date amounted to Rs. 900.

(*b*) Cheques paid into the Bank but not cleared and credited before 31-12-1950 amounted to Rs. 2,200.

(*c*) Interest on Overdraft amounting to Rs. 175 debited in the Pass Book but not entered in the Cash Book.

(*d*) Rs. 600 Interest on Investments collected by the bank and credited in the Pass Book but not entered in the Cash Book.

(*e*) Bank Charges Rs. 10.50 not entered in the Cash Book.

(*f*) Rs. 800 in respect of a dishonoured cheque entered in Pass Book but not in Cash Book.

(**Answer :** Overdraft as per Cash Book Rs. 9,014.50)

VII. On 31st March 1952, your Bank Pass Book showed a credit balance of Rs. 12,000. Before that date you had issued cheques amounting to Rs. 3,000 of which cheques amounting to Rs. 1,800 have so far been presented for payment. A cheque for Rs. 1,600 paid by you into the Bank on 29th March is not yet credited in the Pass Book. You had also received a cheque for Rs. 320 which although entered by you in the Bank column of the Cash Book was omitted to be paid into Bank. There was also a credit for Rs. 170 for Interest on Current Account and a debit of Rs. 20 for Bank Charges.

Draw up a Reconciliation Statement showing adjustments between your Cash Book and Bank Pass Book

(**Answer :** Balance as per Cash Book Rs. 12,570)

VIII. On 29th February, 1972, a merchant's Pass Book showed a favourable balance of Rs. 2,250. On comparing the entries with Cash Book, the following was discovered :

(i) The following cheques were issued on 26th February, 1972 in favour of Albert Rs. 250, Sarma Rs. 375 and Chand Rs. 125, but the last two cheques were not presented to the Bank for payment before 29th February, 1972.

(ii) Cheques amounting to Rs. 500 deposited on 26th February, 1972 were collected by the Bank only in March, 1972.

(iii) The Pass Book showed the debits in respect of (*a*) Bank Charges Rs. 15 · (*b*) Electricity Bill Rs. 25. There was no credit in Cash Book in respect of the above items.

(iv) The Pass Book also showed the following credits but there was no corresponding debits in Cash Book : Interest on Investments Rs. 25 and Commission Rs. 15.

From the above information, prepare a Bank Reconciliation Statement.

(**Answer :** Bank Balance as per Cash Book Rs. 2,250)

IX. On 31st December, 1970, the Bank Pass Book of Robert showed a credit balance of Rs. 6,400. On examination of Bank Pass Book and Cash Book, you find that—

(1) Cheques amounting to Rs. 1,600 were issued on 30th December, 1970 to creditors who presented them for payment on 2nd January 1971.

(2) A Dividend of Rs. 320 on Shares paid directly into the Bank had not been debited in the Cash Book.

(3) Bank had debited, through oversight, Robert's Account with Rs. 240 in respect of a cheque drawn by Mr. John.

(4) Cheques amounting to Rs. 3,500 had been recorded in the Cash Book as having been paid into the Bank on 28th December, 1970, but were entered in the Bank Pass Book on 3rd January, 1971.

Prepare the Bank Reconciliation Statement of Mr. Robert as on 31st December, 1970.

(**Answer :** Bank Balanee as per Cash Book Rs. 8,220)

X. The Cash book of Dhandapani showed an Overdraft of Rs. 15,000. The Cash Book entries were checked with the entries in the Pass Book. The following details were disclosed. Prepare a Bank Reconciliation Statement to show the Bank Balances as per Pass Book as on 30th June, 1960.

(1) Out of the four cheques issued on 27th June. 1960 for Rs. 21,000, two cheques for 12,000 alone were presented for payment on 29th June, 1960.

(2) Cheques paid into the Bank amounted to Rs. 17,800. But the Bank had not cashed and credited in the Pass Book before that date.

(3) There was an entry on the Debit side of the Pass Book for Bank Charges, Rs. 15.

(4) The Bank had also debited the account for Interest on O/D for Rs. 28.

(5) It was also noticed that the Bank had paid Rs. 275 as Insurance premium as per our instructions on 29th June, 1960.

(**Answer :** O/D as per Pass Book Rs. 24,118)

XI. Martin's Pass Book showed an Over-draft of Rs. 32,583 on 31-3-1957. You are required to prepare a Bank Reconciliation Statement to show the Cash Book Balance having regard to the following :

(*a*) Cheques paid into the Bank, Rs. 72,982 on 30th March, 1957 were cashed and credited only on 3rd April 1957.

(*b*) Cheques issued to the value Rs. 15,000 were presented for payment only on 2nd April 1957

(*c*) A cheque drawn on No. 2 account for Rs. 5,284 was wrongly passed through this account by the Bank.

(*d*) A cheque for Rs. 12,650 issued to Mr. Darwin was not entered in the Cash Book, though found in the Pass Book.

(*e*) There were debits in the Pass Book for Rs. 75 and Rs. 37 in respect of Bank Charges and Interest on O/D respectively.

(*f*) There was also a credit in the Pass Book for a sum of Rs. 576 which was collected by the Bank as Dividends on Shares.

(**Answer :** Balance as per Cash Book Rs. 32,301)

XII. Given below are extracts taken from the Cash Book (Bank columns only) and Pass Book of Mr. Vadivelu. Prepare a Bank Reconciliation Statement as on 28th February 1961.

Dr. CASH BOOK *Cr.*

1961 February		Rs.	1961 February		Rs.
1	To Balance b/d ..	22,148	3	By Green .	2,822
18	,, Black ..	12,000	15	,, Golden & Co...	750
19	,, Sales A/c		20	,, White ..	87
	Raman ..	200		,, Purchases A/c	
28	,, Alfred .	8,345		Kittu ..	182
28	,, Commission A/c		26	,, Salaries A/c	
	Babu .	810		Somu ..	150
28	,, Venkatesan ..	3,412	26	,, Chand & Co.,..	8,820
			28	,, Rangam ..	2,346
		46.915		,, Balance c/d ..	31,758
					46,915
March					
1	To Balance b/d	31,758			

Dr. BANK PASS BOOK *Cr.*

1961 February		Rs.	1961 February		Rs.
4	To Green ..	2,822	1	By Balance b/d	22,148
16	,, Golden & Co. ..	750	19	,, Black ..	12,000
20	,, White ..	87	20	,, Raman ..	200
	,, Kittu .	182	28	,, Babu ..	810
26	,, Somu ..	150		,, Muthu ..	1,200
28	,, Insurance			,, Interest A/c..	32
	Premium A/c..	92		,, Interest on	
	,, B/P A/c .	2,500		Investment A/c	135
	,, Balance c/d ..	30,692		,, B/R A/c	750
		37,275			37,275
			March		
			1	By Balance b/d	30,692

XIII. Given below are the entries in the Bank Column of the Cash Book and the Pass Book Prepare a Bank Reconciliation Statement as on 30-4-1964.

Dr. CASH BOOK **Cr.**

1964 April	Rs.	1964 April	Rs
1 To Balance b/d ..	20,525	8 By Kumar	12,000
18 „ Shankar ..	6,943	19 „ Purchases A/c (Kittu) .	18,250
19 „ Sales A/c (Raman) ..	450	25 „ Abraham ..	9,740
20 „ Commission A/c (Babu) ..	200	26 „ Kasim ..	11,780
29 „ Brown ..	7,810	28 „ Salaries A/c (Somu) ..	720
30 „ Balance c/d ..	16,562		
	52,490		52,490
		May 1 By Balance b/d	16,562

Dr. PASS BOOK **Cr.**

1964 April	Rs,	1964 April	Rs.
9 To Kumar ..	12,000	1 By Balance b/d ..	20,525
20 „ Kittu ..	18,250	20 „ Shankar ..	6,943
26 „ Abraham ..	9,740	22 „ Raman ..	450
28 „ Smou ..	720	25 „ Babu ..	200
29 „ B/P a/c ..	4,000	26 „ B/R A/c ..	20,000
30 „ Balance b/d ..	5,253	29 „ Interest A/c ..	25
		30 „ Interest on Investment A/c	1,820
	49,963		49,963
		May 1 By Balance b/d ..	5,253

XIV. From the following particulars prepare a Bank Reconciliation Statement showing the Balance as per Pass Book on 31st January, 1971 :

(1) The Bank Balance as per Cash Book was Rs. 7,000 on 31-1-71.

(2) Cheques amounting to Rs. 800 were issued in January, 1971 but presented for payment in February, 1971.

(3) Cheques amounting to Rs. 1,800 were paid in the Bank in January, 1971 but were credited in the Bank in February, 1971.

(4) A cheque for Rs. 600 which was received from a customer, was entered in the Bank column of the Cash Book in January, 1971 but the same was paid into the Bank in February, 1971.

(5) The Pass Book shows a credit of Rs. 250 for Interest and a debit of Rs. 50 for Bank Charges.

(**Answer :** Bank Balance as per Pass Book Rs. 5,600)

XV. On 30th June, 1970, the Pass Book of Samraj showed a credit balance of Rs. 4,610. On examination of the Cash Book and Bank Pass Book, you find that—

(1) Cheques amounting to Rs. 6,300 were issued on 29th June, 1970 to creditors who presented them for payment on 2nd July, 1970.

(2) A Dividend of Rs. 380 paid direct to the Bank had not been recorded in the Cash Book.

(3) Cheques amounting to Rs 7,500 had been recorded in the Cash Book as having been paid into the Bank on 28th June, 1970 but they were entered in the Bank Pass Book on 3rd July, 1970.

(4) Bank Charges of Rs. 10 had been entered in Cash Book twice but recorded only once in Pass Book.

(5) Bank has debited through oversight Samraj's Account with Rs. 260 in respect of a cheque drawn by Swamy.

(6) A cheque of Rs. 720 paid into the Bank had been dis-honoured prior to 30th June, 1970 but record of this fact did not appear in the Cash book.

Prepare the Bank Reconciliation Statement of Samraj as on 30th June, 1970.

(**Answer :** Bank Balance as per Cash Book Rs. 6,400)

XVI. The Cash Book of a Firm showed an Overdraft of Rs. 7,750 on 31st March, 1970. From the particulars given below, prepare a Bank Reconciliation Statement:

(*a*) Of the cheques drawn for Rs. 2,000 only those worth Rs. 1,300 were cashed before 31st March, 1970.

(*b*) Cheques worth Rs. 3,600 were paid into Bank before 31st March, 1970, but cheques worth Rs. 2,000 had alone been collected by the Bank before that date.

(*c*) The Pass Book has been debited with Rs. 60 on account of Interest and Rs. 10 for Bank Charges.

(*d*) Dividends amounting to Rs. 750 have been collected by the Bank and credited in the Pass Book.

(*e*) A cheque for Rs. 350 has been dishonoured and it has been debited in the Pass Book.

(Answer : Balance as per Pass Book Rs. 7,620**)**

XVII. The Pass Book of Anbumani showed a balance of Rs. 3,500 on 31st December, 1971. On verification with his Cash Book, he found that cheques wroth Rs. 1,500 issued by him had not been presented to Bank for encashment. A cheque received from Swami for Rs. 180 remitted in to Bank on 29-12-1971 had not been collected. The Bank had collected Dividends amounting to Rs. 70 and had charged Rs. 10 to wards Bank Charges.

Prepare a Statement showing the balance as per Cash Book.

(Answer : Balance as per Cash Book Rs. 2,120**)**

XVIII. Velan's Pass Book showed that he had an Overdraft of Rs. 9,500 on 31-3-1972. Prepare a Bank Reconciliation Statement showing the Cash Book Balance on the same date taking into account the following :

(*a*) Cheques worth Rs. 750 paid into Bank during the last week of March were collected only in April.

(*b*) Cheques issued but not presented to the Bank for payment during March amounted to Rs. 185.

(*c*) The Pass Book showed a debit of Rs. 125 towards Interest on Overdraft.

(*d*) The Bank had paid by mistake a cheque for Rs. 110 and hence had wrongly debited the amount.

(Answer : O/D as per Cash Book Rs. 8,700**)**

XIX. The Cash Book of Peter showed that he had an Overdraft of Rs. 6,200 on 31st October 1973. On verification of the Cash Book with the Bank Fass Book the following points were noticed :

(i) Cheques worth Rs. 1.400 paid into the Bank had not been collected till 31st October.

(ii) Cheques worth Rs. 720 issued before 31st October had not been presented for payment.

(iii) Interest on Overdraft Rs. 110 charged by the Bank was not entered in the Cash Book.

(iv) A Bill Receivable worth Rs. 800 discounted on 1st September was dishonoured.

(v) A customer had paid into the Bank direct Rs. 450 and this was not entered in the Cash Book.

Prepare a Bank Reconciliation Statement as on 31-10-73.

(**Answer :** O/D as per Pass Book Rs. 7,340)

XX. From the following particulars, ascertain the Bank Balance as per Pass Book on December 31, 1973 :

(1) The Bank Balance as per Cash Book was Rs. 11,500 on December 31, 1973.

(2) Cheques issued but not cashed before that date amounted to Rs. 1,750,

(3) Cheques paid into Bank, but not cleared before December 31, 1973 amounted to Rs. 2,150

(4) Interest on Investments collected by the Bank but not entered in the Cash Book amounted to Rs, 275

(5) Local cheque paid in but not entered in the Cash Book Rs. 250.

(6) Bank Charges debited in the Pass Book Rs. 95.

(**Answer :** Pass Book Balance Rs 11,530)

XXI From the following particulars, prepare a Bank Reconciliation Statement :

(1) Overdraft as per Pass Book on March 31, 1959 was Rs. 10,700.

(2) Cheques isssued before that date but presented for payments after that date amounted to Rs. 900.

(3) Cheque paid into the Bank but not credited before 31-3-1959 amounted to Rs. 2,200.

(4) Interest on Overdraft Rs. 175 debited in the Pass Book but not entered in the Cash Book.

(5) Bank Charges Rs. 12 not entered in the Cash Book.

(**Answer :** O/D as per Cash Book Rs. 9,213)

XXII. The Pass Book of Sivan & Co., showed a balance of Rs. 15,500 on December 31, 1974. Cheques issued by them before that date but were not presented for payment amounted to Rs. 3,200. Cheques amounting to Rs. 1,800 were paid into the Bank on December 30, but were not credited until January 2, 1975. On December 31, a cheque of Rs. 540 was received and entered in the Bank column of the Cash Book but was omitted to be paid into the Bank.

There were a debit of Rs. 8 for Bank Charges and a credit of Rs. 120 for Interest on Current Account in the Pass Book.

Prepare a Reconciliation Statement as on December 31, 1974.

(**Answer :** Balance as per Cash Book Rs. 14,528)

XXIII. On 31st March 1960, your Bank Pass Book showed a balance of Rs. 8,000, to your credit. Before that date you had issued cheques amounting to Rs. 1,800 of which cheques amounting to Rs. 900 have so far been presented for payment. A cheque of Rs. 800 paid by you into the Bank on 29th March is not yet credited in the Pass Book. You had also received a cheque for Rs. 160 which although entered by you in the Bank column of the Cash Book was omitted to be paid into the Bank. On 31st March, a cheque of Rs. 250 received by you was paid into the Bank but the same was omitted to be entered in the Cash Book. There was a credit of Rs. 85 for Interest on Current Account and debit of Rs. 10 for Bank Charges.

Draw up a Reconciliation Statement showing adjustments between your Cash Book and Pass Book.

(**Answer :** Balance as per Cash Book Rs. 7,735)